DEPARTMENT OF BUSINESS ADMINISTRATION
GOVERNMENT ARTS COLLEGE (AUTONOMOUS), COIMBATORE-18

INTERNATIONAL BUSINESS

UNIT-I

International Business: Concept-Evaluation-Why go International-Drivers and Restrainers of International Business -Spin -off Benefits- Internationalization Strategies-Types of International business.

UNIT-II

International Business Environment-(PEST) Politicl-Economic-Socio-cultural-Technology-Protectionism-Demerits-Trade Barriers -Types.

UNIT -III

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UNIT -V

Regulation and Promotions of Foreign trade- Objectives- EXIM policy-Objectives- Features-organizational set-up and functions- Production and Assistance – EPZ's, EOU's.

Text book

Francis Cherunilam : International Business (EEE)

Reference Books

Victor Luis Anthuvan : Issues in Globalizations.

K.Aswathappa : International Business

Unit I

Subject Name	Sub Code	Semester	Prepared by
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Meaning of International Business

International business denotes all those business activities which take place beyond the geographical limits of the country. It involves not only the international movements of goods and services, but also of capital personnel, technology and intellectual property like patents, trademarks, know-how and copy rights.

Definition of International Business

Roger Bennet defines, International business involves commercial activities that cross national frontiers,

According to John D. Daniels and Lee H. Radebaugh, International business is all business transactions-private and governmental- that involve two or more countries. Private companies undertake such transactions for profits, governments may or may not do the same in their transactions.

International business refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale.

It involves cross-border transactions of goods and services between two or more countries. Transactions of economic resources include capital, skills, and people for the purpose of the international production of physical goods and services such as finance, banking, insurance, and construction. International business is also known as globalization.

To conduct business overseas, multinational companies need to bridge separate national markets into one global marketplace. There are two macro-scale factors that underline the trend of greater globalization. The first consists of eliminating barriers to make cross-border trade easier (e.g. free flow of goods and services, and capital, referred to as "free trade"). The second is technological change, particularly developments in communication, information processing, and transportation technologies.

Some such **examples** are Amazon, Citigroup, Coca-Cola, etc. These companies have independent operations in each country, and each country has its own set of offices, employees, etc. In fact, even the products and marketing campaigns are customized as per local needs.

Concept of International Business

Today business is growing globally and the need for profit is pushing a large number of business firms into world markets beyond their historical and traditional boundaries. A global corporation is gaining an increasing acceptance in the business community compared to corporations operating within the geographical limits of a country. These companies are termed as Multi National Corporations (MNC) or Trans National Company(TNC). These companies operate on the principle that the world is their field of operations. For example. Shell, Unilever, Nestle, etc., operate on the philosophy of "global corporation". They cannot be labeled as French or German or Dutch or Swiss company. These companies have no real domestic market. People of many different nationalities are managing and operating these corporations. Their products and services are sold around the world through their operating subsidiaries functioning in various countries.

International business involves transactions across the national boundaries. It includes the transfer of goods, services, technology, managerial knowledge and capital to other countries. Although business has been conducted on an international scale for many years, international business has gained more significance only in recent years because of the emergence of multinational corporations in some of the developing countries.

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Advantages of International Business

1.Geographical Specialization

Countries across the world differ significantly in terms of natural resources, capital equipment, manpower, technology and land and so on. Some countries are rich in mineral resources hydro-electric power metallic resources, and so on while some other countries may possess advanced technique of manufacturing, efficient working population, capital equipment and so on.

International business is required to exchange the surplus resources resulting from geographical specialisation for deficit resources in other countries

2. Optimum use of Natural Resources

International business operates on a simple principle that a country which can produce more efficiently and trade the surplus production with other countries has to procure what it cannot produce more efficiently. This enables the countries to optimally utilize the scarce resources available with them

3. Economic Development.

International business helps the developing countries greatly in achieving rapid economic development by importing machinery, equipment, technology, talent, and so on. For example., China, India, Brazil and South Korea which were once slower in their economic development are achieving faster economic development due to international business. Even the developed countries like Japan, USA, UK, etc., have achieved remarkable economic progress through the import of raw materials and export of manufactured goods.

4. Generation of Employment.

International business generates employment opportunities by assisting the expansion and growth of agricultural and industrial activities. It provides direct
employment to those people who are hired by export and import firms and generates indirect employment to number of intermediary firms like, clearing and forwarding agent, indent houses transport organizations, outsourcing agencies, etc.

5. Higher Standard of Living.

On account of international business, the citizens of the country can buy more varieties of goods and services which cannot be produced cost effectively within the home country. This exchange of goods and services among the countries enhances the standard of living of people.

6. Price Equilisation

International business helps to stabilize the prices of various commodities which are fluctuating on a daily basis in the world market. Whenever the price of a commodity rises sharply in a particular country, the same commodity is imported from some other foreign countries to prevent the sharp rise in prices in the home country. Thus international business prevents violent fluctuations of prices of various commodities and helps maintain prices of various commodities at stable level in each and every country.

7. Prospects for Higher Profit.

International business helps the firms which produce goods in excess to sell them at relatively higher price to various countries in the international market. This enables them to earn higher profit.

8. Capacity Utilisation. International business enables the firms across the country to sell their goods and services on a large scale in the international market. As a result their machinery and equipments are used to their full capacity. In short very prospect of selling goods in international market besides selling the goods in home market keeps the machineries, tools, equipment, and factory fully engaged all through the year.

Disadvantages of International Business

1. Economic Dependence.

International trade is more likely to make the country too much dependent on imports from foreign countries. The former may not take any efforts to produce goods and services indigenously to substitute imported goods and thus becoming self sufficient. As a result the importing country may become economically slave to exporting country and end up becoming colony of the exporting country.

2. Inhibition of Growth of Home Industries.

International business may discourage the growth of indigenous industry. Unrestricted imports and severe competition from foreign companies may ruin the home industries altogether.

3. Import of Harmful Goods.

International business may lead to import of luxurious goods, spurious goods, dangerous goods, etc. It may harm the well-being of people.

4. Shortage of Essential Goods in Home Country. Moreover the export of essential commodities out of the greed of earning more foreign exchange may result in absolute shortage of these goods at home country and people may have to buy these commodities at exorbitant price in the local market.

5. Misuse of Natural Resources.

Excessive export of scarce natural resources to various countries across the world may lead to faster depletion of the resources in the exporting countries. This in turn may bring about ecological disaster in the country from which it is exported.

6. Political Exploitation.

International business may create economic dependence among the countries which may threaten their political independence. The MNCs may influence the policy decision of the government to their favour. In due course of time they may dictate terms to administrators of nation by the sheer strength of their money power. For example Britishers came to many countries as mere traders and ultimately colonized those countries and ruled them for centuries.

7. Rivalry among the Nations.

Acute competition for exports may lead to rivalry among the nations. This may lead to conflict of interest among the countries and end up in wars among them.

8. Invasion of Culture.

International business may result in invasion of country's culture. Younger generation is more likely to imitate foreign culture and buy goods and services beyond their means to gain acceptance in the affluent section of society. This will ruin the conventional lifestyle of the society.

9.International Peace.

International business makes countries across the world become inter-dependent while these countries are independent in their functioning. This facilitates the exchange of culture, ideas and mutual understanding. It develops and strengthens cultural and social relations among the people of different countries. All these collectively contribute to maintain international peace.

Driving factors

The important forces driving globalisation are as follows:

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1. Liberalisation: One of the most important factors which have given a great forward thrust to globalisation since the 1980's is the formation of universal economic policy resulting in liberalisation of economy in many countries. The immediate result of liberalisation in globalisation of business. Now many business firms can involve themselves is international trade as the restrictions imposed by various countries is highly restricted under GATT/WTO.

2. MNC's: The companies which have taken a complete advantage of trade liberalisation caused under GATT/WTO are MNC's (Multi – National Companies). Sony, Philips, Coco Cola, Pepsi, Procter & Gamble, etc are some famous examples for MNC's. These companies combine their

resources and objectives to achieve profit in globel market. According to the world Investment Report 1997, there were about 44,500 MNC's in the world with nearly 2.77 lakhs foregin collaborations. Hence MNC's is an important factor inducing Globalisation.

3. Technology: Technology in a powerful driving force of Globalisation. Once a Technology is developed, it soon becomes available every where in the world. (for example) A hospital in the USA performs the required diagnostics on patients say an X – ray or MRI or C.T Scan. These diagnostic tests represent technology in medical field. In the next three minutes, a radiologists in Bangolore, India receives the scanned images from USA. He then sends his report to USA. This is called as teleradiology. The entire process, from the time the patient was admitted, has taken Just 20 minutes. The cost of this work is 30% lower in India compared to the USA. In short, long distance on – line services made possible by the technological developments have given a forward thrust to globalisation.

4. Transportation and Communication revolutions: Technological revolution in several spheres, like transport and Communication, has given a great impetus to globalisation. The Microprocessor in computers has created the flow of information from one part of the globe to another not only fast but also cost effective. It has played a pivotal role in reducing space and time. It has made world in to a global village. Microprocessors coupled with satellite, optical fibre, wireless technologies, world wide web have made this 'World in to a global village. The consumers/ customers has become more global. By sitting in front of the computer and logging on to world wide web the consumer can download any type of information from any part of the world. Flow of information is business. It determines profit. Hence technology is a strong driving force for Globalisation.

5. **Product development and efforts:** The immediate impact of increase of Technology is the growth of new products due to innovation. The fast technology hastens product obsolescence. This has made many firms to invest heavily on R&D activities with cross – border alliances . These companies have to stay in business and survive competition. In order to achieve this, many companies have crossed their borders and have tie – ups to update their products through research and development with foreign companies. This causes globalisation.

6. **Rising aspirations and wants:** Because of the increasing levels of education and exposure to the media, aspirations of people around the world are rising. They aspire for everything that can

make life more comfortable and satisfying. If domestic firms are not able to meet the wants, they would naturally turn to the foreign firms to satisfy their aspirations. This promotes Globalisation.

7. **World economic trends:** The world economic conditions are changing fast. There, is a great difference in the growth rates of economies/ markets between developing nations and developed nations. In developed nations the economies have become stagnant, due to saturation on the otherhand, the developing nations are experiencing tremendous growth rate in various business sector. Cheap labour, high investment in research and development, improvements in technology are some of the factors which have driven the developing nations towards achieving high growth rate in business. Hence it is very common for the developing nations to have a strong international trade links with developed nations. Thus difference in world economies between nation causes gobalisation.

8. **Regional Integration:** Nowadays many countries are joining hands together to promote free and fair international trade across the borders. They are forming separate trade blocks. European Union and North American Free Trade Agreements are two such classical examples. This promotes globalisation.

9. **Leverages:** Leverage is simply some type of advantage that a company enjoys by conducting business in more than one country. A global company can experience three important types of leverages.

10. **Experience transfers:** The experience that a company gains by doing business in one country can be effectively transferred to some other country if the particular company does business on global scale. This is called experience transfer (For example) Cocacola first developed a strong marketing strategy to tap tea and coffee market in India. In 2002 it became a success. From this experience, it then joined hands with Mc Donald's for marketing hot beverages. The Georgia Gold brand was thus born and it was first launched in Delhi and Mumbai. This brand is now available in all Mc Donald's outlets throughout the country. The success of this business in hot beverages with Mc Donald's promoted Coca-cola to enter into ice-tea and cold coffee Marketing business in 2003.

Another classical example of experience transfer is provided by Hindustan Lever Limited.(HLL). The occurrence of Iodine Deficiency Diseases (IDD) is very common in developing countries. This disease can be easily prevented by taking micro quantities of iodine along with salt. The salt thus produced is called as iodised Salt. This new concept of iodised salt was produced by HLL in

India. HLL has now successfully introduced the concept of iodised salt to other countries like Kenya and Tanzania. The experience gained by HLL in marketing iodised salt in India has made the company to successfully market the same product in other African countries.

11. Scale economies: The art of cutting down the cost of production is called as scale economies. One major cause for scale economies is technology breakthroughs. Many companies are now heavily infesting in R&D in an attempt to reduce the cost of production. They are attempting to produce cheaper and more reliable products. (For example). The replacement of vaccum tubes by transistors and subsequent development of printed circuit boards greatly reduced the labour cost required to assemble radios, T.V'S and tape recorders. By these technological changes the cost of production of T.V sets greatly reduced and production of TV sets greatly increased. Philips are producing more than 3 billion TV sets now in order to stay in business. So to market such huge volume of production of T.V sets, Philips needs global application of business.

12. Resource Utilisation: Another strength of global company is its resource utilisation. It can now successfully outsource its resources globally thereby making better utilisation of resources.

Restraining forces On Globalisation

There are also several factors which restrain Globalisation trend. They are

1. External Factors
2. Internal Factors

External Factors: These are government policies and controls which prevents cross-border business.

Internal Factors: These are collection of factors that exists within the organisation that prevents Globalisation. One such factor is called as management myopia or near sightedness. The company with an aim to make immediate profit engage itself in short-term plan and target local markets for business. This is called as management myopia. This acts against Globalisation of business.

Spin offs

Definition: Corporate spinoff refers to the dissolution of a subsidiary business entity from its parent company to form a new though smaller independent organization. The subsidiary company's shares are majorly allotted to the existing shareholders', as per their holding (pro-rata basis) in the parent company.

The new entity so formed has an individual identity and acquires assets, employees and other resources from its parent company. It is also separately listed under stock exchange for trading.

Reasons for Corporate Spinoff

Why do companies need to spinoff? Is it their business strategy?

Some of the prominent ventures go for spinoffs to resolve the following related problems:

- Managing of a diversified business becomes troublesome because of varying objectives and strategies.
- Due to the changing economic environment, there emerges a need for structural reforms. Also, the individual entity's potential remains unexplored as a single business unit.
- As a part of a single entity, the business risk of one subsidiary may affect the performance of the other.
- Separating the unregulated companies from the regulated ones is essential to refrain such entities from the burden of legal regulations.
- The parent company have fewer tax benefits from keeping subsidiaries as a consolidated organization.
- As a single business unit, the parent company experiences a lack of profitability or even incurs a loss in the business.
- It is necessary to create better shareholders' value in the capital market, which usually becomes stagnant due to the company's stability.

ADVANTAGES OF SPIN OFFS

- Independent Brand: Spinoff helps the company to develop the subsidiary under a separate corporate identity.
- Profitability: As identified, the spun-off company grows impeccably, since it focuses on the core business model along with attracting new shareholders.
- Secures Investors' Interest: Seeing the growth opportunity and potential, institutional investors show high interest in the spun-off stock.
- Develops Entrepreneurial Culture: The employees, when moved to a new entity, seek opportunities to explore their creativity and innovation, for empowerment.
- Serves Investment Objectives: The existing and prospective investors see great potential as they can view the subsidiary's business independent from that of the parent company.

International Strategies

Growth Strategy

A growth strategy refers to adding new products or finding and implementing new features to existing products. Sometimes, an organization may be compelled to modify or increase its product line to fight with its competitors. Otherwise, customers may shift to a new technology of a competitive company. For example, mobile phone companies need to keep adding new features or discovering new technology. Those who do not keep up with consumer demand will go out of business soon.

A growth strategy can also be implemented by finding a new market for the company's products. Sometimes, it can happen by accident. For example, a consumer soap manufacturer may discover that industrial workers prefer its products to others. Hence, apart from selling the soap in retail stores, the company should ship the soap in larger containers for factory and plant workers.

Product Differentiation Strategy

Product differentiation strategy can give a competitive advantage to companies, such as superior quality or service. For example, an air purifier manufacturer may differentiate from competitors with a superior engineering design. Product differentiation strategy is usually used to set oneself apart from key competitors. It is found that product differentiation strategy can also help a company build brand loyalty.

Price-Skimming Strategy

A price-skimming strategy refers to charging higher prices for a product in comparison to competitors, especially during the introductory phase. A company may use a price-skimming strategy to quickly derive its production and advertising costs. However, there must be something special about the product.

For example, a company may introduce a new type of solar panel. If the company is the only one that is selling the product, customers may pay the higher price.

One disadvantage of this strategy is that it attracts competition relatively quickly. Enterprising individuals who have technological knowledge may see the high profits the company is reaping and launch their own products.

Acquisition Strategy

An organization with enough capital may use an acquisition strategy for competitive advantage. Purchasing another company or one or more product lines of another company is the major policy in such a kind of strategy. For example, Facebook's acquisition of WhatsApp is a part of Facebook's acquisition and growth strategy.

There are five basic options for competing in international markets. These are (1) exporting, (2) creating a wholly owned subsidiary, (3) franchising, (4) licensing, and (5) creating a joint venture or strategic alliance. The option to choose depends on how much control a firm wants to have over its operation, the amount of risk involved, and the share of the operation's profits the firm gets to keep.

Exporting

Exporting includes producing goods in the home country and then shipping them to another country. Once the products reach the foreign shores, the exporter's role is over. A local firm then sells the goods to local customers.

Once the exported products are found to be available in a given country, exporting often becomes undesirable. An exporting firm loses control of the management and operation of goods' sales once they are turned over to a local firm for sale. Also, an exporter earns money when it sells its goods to a local firm, but it cannot get any profit when the end users buy the goods. Exporting is the easiest way of entering an international market but risky too.

Wholly Owned Subsidiary

A wholly owned subsidiary is a new business in a foreign country owned by the foreign firm. It can be a greenfield venture, meaning that the organization builds up the entire operation itself. The other possibility is purchasing an existing operation.

Having a wholly owned subsidiary is an attractive option as the firm has complete control over the operation and gets all the profits. It can be quite risky, however, as the firm must pay all of the expenses required to set it up and operate it.

Franchising

Franchising involves a firm (franchisor) granting the rights to use its brand name, products, and processes to other firms (franchisees) in lieu for a fee (a franchise fee) and a pre-set percentage of franchisees' revenues (a royalty fee).

Subway, The UPS Store, and Hilton Hotels are just a few of the firms that have done so. Franchising is an easy and attractive way to enter foreign markets because it needs little financial investment by the franchisor. On the downside, the franchisor firm gets only a small portion of the profits made under its brand name. Also, local franchisees may operate against the franchisor

Licensing

Licensing includes permitting a foreign company the right to produce a company's product within a foreign country in return for a fee. The products are usually produced using a patented technology.

The firm that grants a license avoids many types of costs, but also the profits are limited. The firm also loses the control over use of its technology.

Joint Ventures and Strategies Alliances

In a Joint Venture (JV), the participating organizations contribute to the creation of a new entity. In such an arrangement, organizations work cooperatively, but a new organization is not created. The firm and its partner shares decision-making, control over the operations, and the profits.

JVs are especially attractive when a firm thinks that working closely with locals will provide it important knowledge, enhance acceptance by government officials, or both.

The Hero-Honda automobile firm was a JV between Hero of India and Honda, a company from Japan.

Market Penetration

Market penetration means gaining additional share of an organization's existing markets by utilizing existing products. Advertising is a major way to attract customers within the existing markets.

Nike features popular and known athletes in print and television ads to snatch market share within the athletic shoes business from rivals Adidas and Lotto.

Market Development

Market development means to sell existing products in new markets. A popular way to reach a new market is by entering a new retail channel.

Kicking Horse Coffee, based in a remote town of Invermere, B.C., sells only organic fair trade coffee and Indian chai. It has been a mainstay of the town since the company started in 1996. Invermere is now the base for the 8400 m2 production facility.

Product Development

Product development involves building and selling new products to already existing markets. In the 1940s, Disney developed its products within the film business venturing out of cartoons and creating movies featuring real actors.

In 2009, Starbucks introduced VIA, an instant coffee variety for customers when they do not have easy access to a Starbucks store or a coffeepot. Now many blends of Starbucks coffee and Tazo tea are widely available in markets in the popular one-cup format.

Horizontal Integration

Expanding by acquiring or merging with one of the rival organizations is known as horizontal integration.

An **acquisition** occurs when an organization buys another organization. Generally, the acquired organization is smaller than the buyer organization.

A **merger** joins two companies into one. Mergers occur with similar sized companies.

Horizontal integration is preferable and attractive for many reasons. Horizontal integration may lower costs by gaining a greater economies of scale. Fitting horizontal integration alongside Porter's five forces model, it means that such moves also reduces the intensity of rivalry and can make the industry more profitable.

Vertical integration (VI) is used strategically to gain control over the industry's value chain. The important issue to consider is, whether the company participates in one activity (one industry) or many activities (many industries).

For example, a company may choose that it only manufactures its products or would get involved in retailing and after-sales services too. Two issues have to be considered before integration −

- **Costs** − An organization must integrate vertically when costs producing inside the company are less than the costs of availing that product in the market.
- **Scope of the firm** − It is necessary to think over the fact, whether moving into new industries would not dilute its current competencies. New activities are often harder to manage and control. These factors contribute to a decision if a company will pursue none, partial or full

Types of Vertical Integration

There are usually two types :

Forward Integration

Engaging in sales or after-sales industries for a manufacturing company, it is a forward integration strategy. This strategy is used to achieve higher economies of scale and larger market share. Forward integration strategy is boosted by internet. Many companies have built their online stores and started selling their products directly to consumers, bypassing retailers.

Forward integration strategy is effective when –

- Few quality distributors exist in the industry.
- Profit is high for distributors or retailers.
- Distributors are very expensive, unreliable or unable to offer quality service.
- The industry is going to grow significantly.
- Stable production and distribution is possible.
- The company has vast resources and capabilities to manage the new business.

Backward Integration

If a manufacturing company starts creating intermediate goods for itself or buys its previous suppliers, it is a backward integration strategy. It is used to secure stable input of resources and become more efficient.

The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.