**CORE- XV**

# INTERNATIONAL BUSINESS MANAGEMENT

# SUB CODE 18MTT42C

## UNIT 1

### INTRODUCTION TO INTERNATIONAL MANAGEMENT

International management requires the understanding of crossing cultures, multinational corporations' interactions, global perspectives, and corporate issues. Not only does international management rely on core business competencies, but also it requires the knowledge and skills necessary to operate and succeed in an international business arena. Today, multicultural managers are indispensable not only when they work with people from other countries but also with people from the same country, who speak the same language, have the same national heritage and yet, have different ways of looking at the world.

An economy perse is multicultural nowadays. In fact, international management involves planning, organising, leading, and controlling of employees and other resources to achieve organisational goals across unique multicultural and multinational boundaries.

An international manager is someone who must handle things, ideas, and people belonging to different cultural environments while ensuring that allocating and directing of human resources achieves the goals of the organisation, while respecting the beliefs, traditions, and values of the native or host country. This is a non-current definition but it still gives a revealing discernment of this complex subject. Because the process of globalisation is becoming highly competitive and deepens interactions worldwide, the international environment has created enormous challenges for managers. These challenges include analysing the new environment, anticipating its effect on the home company, planning and managing to adapt to situational factors, while attempting to maintain an ethical climate. What is more important, international management demands a contingency approach to the ever changing environment. This means the choice of management system and style depends on the nature of the country, and the people involved.

## CONCEPT OF INTERNATIONAL BUSINESS MANAGEMENT

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.

## INTERNATIONALIZATION OF BUSINESS

**Internationalization** describes designing a product in a way that it may be readily consumed across multiple countries. This process is used by companies looking to expand their global footprint beyond their own domestic market understanding consumers abroad may have different tastes or habits

Internationalization describes the process of designing products to meet the needs of users in many countries or designing them so they can be easily modified, to achieve this goal. Internationalization might mean designing a website so that when it's translated from English to Spanish, the aesthetic layout still works properly. This may be difficult to achieve because many words in Spanish have more characters than their English counterparts. They may thus take up more space on the page in Spanish than in English.

In the context of economics, internationalization can refer to a company that takes steps to increase its footprint or capture greater market share outside of its country of domicile by branching out into international markets. The global corporate trend toward internationalization has helped push the world economy into a state of globalization, in which economies throughout the world become highly interconnected due to cross-border commerce and finance. As such, they are greatly impacted by each others' national activities and economic well-being.

## UNDERSTANDING INTERNATIONALIZATION

When a company seeks to sell its goods abroad, it may find that there are several roadblocks in the way. Some may be technical barriers that need to be overcome; for instance, different voltages of household electricity or different plug shapes found around the world. These may be remedied via technological adaptations. Other barriers may be cultural, for instance in India many Hindus do not eat beef. This means that to internationalize, McDonalds must focus on chicken, fish, and other non-beef menu items that better conform to local custom and culture. Being able to flexibly adapt lends itself to greater internationalization.

There are many incentives that might inspire companies to strive for internalization. For example, in the United States companies that pay exorbitant overhead costs can shave expenses by selling products in nations with relatively weaker currencies or in countries that have lower costs of living. Companies may also benefit from internationalization by reducing the cost of business via reduced labor costs that are outsourced to foreign markets where goods will be sold. Internationalization can thus lead to product internationalization since products sold by multi-national companies are now often used in several different countries.

**THE ENVIRONMENT OF INTERNATIONAL TRADE – FORCE**

Environment means the surrounding. International business environment means the factors/activities those surround/ encircle the international business. In other words, business environment means the factors that affect or influence the MNCs and transactional companies. Factors that affect International Business include Social and Cultural factors (S), Technological factors (T), Economic factors (E), Political/Governmental factors (P),. International factors (I) and Natural factors (N). (STEPIN) William F. Glueck defined the term environmental analysis as, “the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier / technological, geographic and social settings to determine opportunities and threats to their firms.” “Environmental diagnosis consists of managerial decisions made by analysing the significance of data (opportunities and threats) of the environmental analysis.

**INTERNATIONAL BUSINESS ENVIRONMENT FACTORS**

Business environmental factors are broadly divided into internal environmental factors and external environmental factors.

• Internal environmental factors influence/affect the business from within. They include: human resource management, trade unions, organisation structure, financial management, marketing management and production management, management leadership style etc.

External environmental factors are further divided into micro external factors and macro external environmental factors.

• Micro external environmental factors include: competitors, customers, market intermediaries, suppliers of raw materials, bankers and other suppliers of finance, shareholders, and other stakeholders of the business firm. External macro environmental factors include: social and cultural factors, technological factors, economic factors, political and governmental factors, international factors and natural factors.

• Environmental protection received greater attention in order to protect the lives of the people, animals, plants and to maintain ecological balance. The analysis of internal environmental factors indicates the strengths and weaknesses of the business firm while the analysis of micro external and macro external environmental factors indicate the opportunities provided by the environment to the business. The strengths, weaknesses, opportunities and threats (SWOT) analysis helps to formulate strategies for the business firm.

The environment of international business is regarded as the sum total of all the external forces working upon the firm as it goes about its affairs in foreign and domestic markets. The environment can be classified in terms of domestic, foreign, and international spheres of impact.

1. The domestic environment – is familiar to managers and consists of those uncontrollable external forces that affect the firm in its home market.

2. The foreign environment - can be taken as those factors which operate in those other countries within which the MNC operates.

3. The international environment - is conceived as the interaction between domestic and foreign factors and indeed they cover a wide spectrum of forces The forces:

Political environment

- Legal environment
- Cultural environment
- Technological environment
- Economic environment.

• **Political environment** It refers to the influence of the system of government and judiciary in a nation on international business. The type and structure of government prevailing in a country decides, promotes, fosters, encourages, shelters, directs, and controls the business of that country. A political system is stable, honest, efficient, and dynamic and which ensures political participation to the people and assures personal security to the citizens, is a primary factor for economic development.

**Democracy:** refers to a political arrangement in which the supreme power is vested in the people. Democracies maintain stable business environments primarily through laws protecting individual property rights. Ex: India

Merits of democracy: 1. Need for supportive values 2. Function of free speech

**GLOBAL ECONOMIC GROUPINGS**

How FDI is beneficial for the economy:

Cost of trade is reduced which allows easy flow of production and distribution.

Ensure political support and ensures employment, investment and gain in the host country.

Allows taking advantage of low-cost labor and proximity of resources.

FDI enables to increase productivity through transfer of technologies and expert information.

It gradually fills the gap between internal saving capacity and growth of a country.

**THE CASE OF EUROPEAN UNION**

European Union:

European Union was established after Second World War. In this Type of unions 27 countries came together which covered most of the continents which is a distinctive political partnership between those countries. The idea behind this union is to ensure independent trade for the countries involved in international trade activities. EU complies of laws and rules. Every activity of EU is originated on voluntary and democratically approved by every member of the country. The main focus of this Union is to encourage human right both internally and beyond the World. Whenever EU applies law it is bound by the government of EU. The achievement of EU is, it was awarded as Nobel Peace prize award on 12th December 2012. This award was based on the recognition peace, human rights present, future and past since the six decades (European Union, 2012).

**GLOBALIZATION OF BUSINESS**

What is globalisation?

Changes in policy and immense changes, as well as new developments, in the field of technology, have resulted in the growth spurt that has eventually led to melting down of international boundaries and led to the global outreach of products and services. Major policy changes have opened up the markets domestically and internationally, and now local products are competing with international products.

If we look at the current market situation we can easily see that those countries who adopted an open approach towards international brands, and opened up their markets to compete with foreign products, have gained a lot from globalisation. Their economies have received an upward thrust that has catapulted their growth story in a hitherto unimaginable way.

Even a communist giant like China has opened up some of its markets for foreign direct investment and created strategies and policies that are friendly to foreign investment. This has brought the Chinese economy to the forefront and has also resulted in an increase in the per capita income of its citizens.

There was a time when consumers only had access to goods and services that were available locally. Their choices were limited by what they could access on foot, by horse, or by carriage. This is still the case for many people around the world, and in rural and remote parts of the U.S., it's still necessary for families to make weekly trips to town to stock up on food, household items and other necessities. However, with the rise of Internet-based business (think Amazon), there's been an explosion of international trade, and more and more consumers essentially have the world at their door. Of course international trade isn't just a twentieth-century phenomenon. Trade across borders and between cultures has been a feature of human civilization for centuries—there's evidence of this dating back as far as the nineteenth century BCE. The Silk Road, one of the best-known and most enduring "international" trade routes, began sometime around 200 BCE and for centuries was central to cultural interaction from China through regions of the Asian continent all the way to the Mediterranean Sea.

**International business** refers to commerce in which goods, services, or resources cross the borders of two or more nations. This is what the Egyptians were doing when they sent goods across the Red Sea to Assyria. **Globalization** is broader than international business and describes a shift toward a more integrated world economy in which culture, ideas, and beliefs are exchanged in addition to goods, services, and resources. Globalization implies that the world is "getting smaller": As a result of new transportation and communication technologies, people around the world can more readily connect with one another—both virtually and geographically.

The following video provides a good introduction to the causes and consequences of globalization.

**Impact of Globalization on Global Business**

. Let's take a look at particular example, though, to think through the various implications of conducting business on a global scale. Consider McDonald's, which was started by two brothers in San Bernadino, California, sixty-eight years ago. As a result of globalization, nearly 69 *million* people in 118 different countries eat at McDonald's every day. The first McDonald's outside the U.S. and Canada was established in Costa Rica in 1970, and since the 1990s, most of the company's growth has taken place in foreign countries. The process of building a global presence, entering new markets, and capitalizing on growing international demand for American fast food has enabled McDonald's to expand from a single location to a global corporation with over 37,000 locations in over 100 countries.[1] However, entering new markets—whether at home or abroad—means contending with increased competition in those markets, including competition with other globally minded companies. In 2010, Subway surpassed McDonald's to become the largest single-brand restaurant chain and the largest restaurant

operator globally (though since 2014 Subways' sales have lagged behind McDonald's).[2]

Why do we need international business?

Businesses are driven by the profit motive. Businesses have responsibilities towards their shareholders as well as other stakeholders to obtain a proper return on investment and also earn a profit. There are a few important aspects to this –

- **Acquisition of resources**

Resources would include both raw materials as well as finished goods. The acquisition of resources that will benefit the company and also help it to do better than its competitor is an objective for any business. Advanced technology with better components can help a business beat their competition.

- **Increase in market base**

The products that are available in India, China or the United States, are also now easily available in Britain as well. This is because markets have opened up and are now completely dependent on the continuous flow of goods from one end of the world to the other. This is good news from the point of view of business. The production of goods and services is dependent on demand, and the larger the market the greater the demand.

- **Minimising the risk factor**

The sales and profit of any product undergoes the cycle of demand and supply. If a business is limited to just one country, then the periodic shift in demand may affect its profitability, and it could be vulnerable during a slump. To negate this, it is essential that the risk be spread over as wide an area as possible. Thus international markets can help a business to stay afloat as while one market may be depressed another could be booming at any one time.