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A Study on International Business and Its Scope

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Abstract – International business comprises all commercial transactions (private and governmental, sales, investments, logistics and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. The term "international business" refers to all those business activities which involve cross-border transactions of goods, services, resources between two or more nations. Transactions of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

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INTRODUCTION

International business can be defined as the study of multinational companies (Gonzalez-Perez, 2012). One of the first scholars that engaged into developing a theory towards multinational companies was Stephen Hymer. Throughout his academic life he came with theories that sought to explain how multinational companies internationalize and in the pursue of this objective he came with the theory of foreign direct investment, and because of this he is considered the father of international business.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in several countries. Well-known MNEs include fast-food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company and Toyota, consumer-electronics producers like Samsung, LG and Sony, and energy companies such as ExxonMobil, Shell and BP. As show, the multinational enterprises can make business in different types of market. For example, Walmart sells food and clothes (Decarlo and Zajac, 2008).

According to Hymer there are two main determinant of FDI wherein an imperfect market structure is the key element. The first is the firm specific advantages which are developed at the specific companies home country and, profitably, used in the foreign country. The second determinant is the removal of control wherein Hymer wrote: ‘’When firms are interconnected, they compete in selling in the same market or one of the firms may sell to the other,’’ and because of this ‘‘it may be profitable to substitute centralised decision making for decentralised decision making’’

The second phase is his neoclassical article in 1968. This paper includes theory of internationalization and explains the direction of growth of the international expansion of firms. In a later stage Hymer went to a more Marxist approach where he explains that MNC as agents of an international capitalist system causing conflict and contradictions, causing among other inequality and poverty in the world. Hymer is the father of the theory of MNE”, and explains the motivations for companies doing direct business abroad.

PHYSICAL AND SOCIETAL FACTORS OF COMPETITIVE BUSINESS AND SOCIAL ENVIRONMENT

The conduct of international operations depends on companies' objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

Operations of Business

- Objectives:

sales expansion, resource acquisition, risk minimizati on, Diversify their revenue stream

DIFFERENT TYPES OF OPERATIONS

Exports and imports of merchandise:

- Service exports and imports
- Merchandise exports: “Tangible products-goods-that are sent out of a country”.

- Merchandise imports: The import goods are the ones brought into a country.

- Service exports and imports are no product purchasing. It only about services. Services exports and imports can be divided into three most important categories

- “Tourism and transportation, service performance, asset use” (Daniels, J., 2011).

- Exports and Imports of products, goods or services are usually a country’s most important international economic transactions (Daniel, J., 2011)

CHOICE OF ENTRY MODE

Strategic variables impact the choice of entry mode for multinational corporation expansion beyond their domestic markets. These variables are global concentration, global synergies, and global strategic motivations of MNC.

- Global concentration: many MNC share and overlap markets with a limited number of other corporations in the same industry.

- Global synergies: the reuse or sharing of resources by a corporation and may include marketing departments or other inputs that can be used in multiple markets.

- Global strategic motivations: other factors beyond entry mode that are the basic reasons for corporate expansion into an additional market. These are strategic reasons that may include establishing a foreign outpost for expansion, developing sourcing sites among other strategic reasons.

Means of Businesses

- Entry Modes: Export/Import, wholly owned subsidiary, merger/acquisition, alliances and joint ventures, licensing (listed in order of least to most risky)

- Modes: importing and exporting, tourism and tr ansportation, licensing and franchising,turnkey operations, management contracts, direct investment and portfolio investments.

- Functions: marketing, global manufacturing and supply chain management, accounting, finance, human resources

- Overlaying alternatives: choice of countries, organization and control mechanisms

Physical and social factors of business

- Geographical influences: There are many different geographical factors that affect international business. In fact, the geographical size, the climatic challenges happening lately, the natural resources available on a specific territory, the population distribution in a country, etc. are some of the influences that have an effect on the international trade (Witiger, 2012).

- Social factors: Political policies: political disputes, particularly, that result in military conformation can disrupt trade and investment.

- Legal policies: domestic and international laws play a big role in determining how a company can operate overseas.

- Behavioral factors: in a foreign environment, the related disciplines such as anthropology, psychology and sociology are helpful for managers to get a better understanding of values, attitudes and beliefs.

- Economic forces: economics explains country differences in costs, currency values and market size.(Daniels, J.,2011)

Competitive factors of business

- Competitive strategy for products Developing a favorable product features and benefits considered special product characteristics, such as : “style, handling, taste, quality ingredients, comfort, production methods” (Cole, 2011). Developing customer Incentive Programs to attract new customers by offering sales, promotions, discounts, etc. (Cole, 2011).

- Company resources and experience: In the large markets the companies have to invest many more resources to secure national distribution comparing to the small markets. Indeed, competitiveness is higher in larger markets. For example, European retailing companies might face three or four comptetitors on the market, while in the USA, the firms will have to face the 10 to 20 competitors.

- Competitors face in each market: “Knowing who your competitors are, and what they are offering, can help you to make your products, services and marketing stand out. It will enable you to set your prices competitively and help you to respond to rival marketing campaigns with your own initiatives”(Info entrepreneurs, 2009).

Risk of Business

- Strategic

A firm must be prepared, aware for the competition and ready to face it on the international market. Several companies (competitor) would be good to be the substitute for products or services of an unpopular firm. A brilliant and innovative strategy will help and make successful a firm (Okolo, n.d.)

- Operational risk

A company have to be conscious about the production costs to not waste time and money. If the expenditures and costs are controlled, it will create an efficient production and help for the internationalization (Okolo, n.d.)

- Political risk

How a government governs a country can affect the operations of a firm. The government might be corrupted, hostile, totalitarian, etc. that has a negative image around the globe. A firm's reputation can change if it operates in a country controlled by that type of government (Okolo, n.d.). Also, an unstable political situation can be a risk for multinational firms. Elections, any other political event that is unexpected can change a country situation and put a firm in an awkward position (J. Henisz and A. Zelner, 2010).

- Technological Risk

Technological progress bring many benefits, but some disadvantages. Indeed, "Lack of security in electronic transactions, the cost of developing new technology, and the fact that these new technology may fail, and when all of these are coupled with the outdated existing technology, the result may create a dangerous effect in doing business in the international arena" (Okolo, n.d.).

- Environmental Risk

Companies that establish subsidiary or factory abroad need to be conscious about the externalities they will produce. Negative externalities can be noise, pollution, etc. The population might want to fight against the company to keep a natural and healthy environment/country. This situation can change the customer's perception on the firm and create a negative image of it (Okolo, n.d.).

- Economic Risk

These are the economic risks explained by Professor Okolo : "This comes from the inability of a country to meet its financial obligations. The changing of foreign-investment or/and domestic fiscal or monetary policies. The effect of exchange-rate and interest rate make it difficult to conduct international business" (Okolo, n.d.). Moreover, it can be a risk for a company to operate in a country and they experience an unexpected economic crisis after establishing the subsidiary (J. Henisz and A. Zelner, 2010).

- Financial risk

According to Professor Okolo : "This area is affected by the currency exchange rate, government flexibility in allowing the firms to repatriate profits or funds outside the country. The devaluation and inflation will also impact the firm's ability to operate at an efficient capacity and still be stable" (Okolo, n.d.). Furthermore, the taxes that a company has to pay might be advantageous or not. It might be higher or lower in the host countries. Then, ""The risk that a government will discriminatorily change the laws, regulations, or contracts governing an investment—or will fail to enforce them—in a way that reduces an investor's financial returns is what we call "policy risk" (J. Henisz and A. Zelner, 2010).

- Terrorism Risk

A terrorist attack against a company or country is meant to hurt or damage it by violence. It is hate that push people to do it and it is usually based on a religion, culture, political ideas, etc. The World Trade Center attack on 9/11 is an example of terrorist attack that affected the United States and also companies that we established in these buildings (Yourdictionary, n.d.). Therefore, it can be hard to operate where the environment is tensed and scary and in countries that are likely to be attacked (Okolo, n.d.).

- Planning risk

- Price risk

- Customer satisfaction risk

- Mismanagement risks

- Competitive risks

- Location risks

A company has to choose the right location for the subsidiary abroad. It needs to make the right choice before outsourcing or off shoring its activities. There are many criteria to take into account. If there is enough labour force that could work for the firm, the regulations, laws and policies of the host country, if the area is safe, etc. It is important to know the data of the host country, such as, the crime rate. Also, the host country citizens are willing to have this foreign company on their territory or not (Martinez, 2014).

- Bribery risks

IMPORTANCE OF STUDYING INTERNATIONAL BUSINESS

The International Business standards focus on the following:

- raising awareness of the interrelatedness of one country's political policies and economic practices on another;
- learning to improve international business relations through appropriate communication strategies;
- understanding the global business environment—that is, the interconnectedness of cultural, political, legal, economic, and ethical systems;
- exploring basic concepts underlying international finance, management, marketing, and trade relations; and
- identifying forms of business ownership and international business opportunities.

By focusing on these, students will gain a better understanding of Political economy. These are tools that would help future business people bridge the economic and political gap between countries.

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