INTERNATIONAL BUSINESS MANAGEMENT

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UNIT I

- Africa
- Antarctica
- Asia
- Europe
- North America
- South America

EVOLUTION OF INTERNATIONAL BUSINESS

- First phase of globalization in 1870
- Ended with World war I driven by Industrial Revolution
- ‘A vast game of beggar-my-neighbour’
- Felt need for International Cooperation

IMF

IBRD

EVOLUTION OF INTERNATIONAL BUSINESS

- Prolonged recession before world war II
- GATT by 23 countries
- GATT → WTO
- International trade → International Marketing
- International Marketing → International Business

CHARACTERISTICS/FEATURES OF INTERNATIONAL BUSINESS

- Regional Integration
- Declining Trade Barriers
- Declining Investment Barriers
- Growth in FDI
- Strides in Technology
- Growth of MNCs

Stages
- Domestic
- International
- Multinational
- Global
- Transnational

Influence
Social and Cultural
Technological
Economic
Political

Domestic Business

International Business

Approaches
- Ethnocentric
- Polycentric
- Regiocentric
- Geocentric

Influence
Export
Direct Investment
Licensing Franchising
Turnkey Projects Joint Venture
Mergers and Acquisition

INTERNATIONAL BUSINESS

Goals
- Market Share
- High Profit
- Risk Avoidance
- Resource Acquisition
- Expand Business Capacities

Advantages
- Low Price
- Variety of Goods
- High Living Standards
- Economic Growth
- Competitive Advantages

Problems
- Political risk
- Foreign Debt
- Exchange Instability
- High Cost

INFLUENCE S

- Accurate Information e.g. Bata
- Timely Information e.g. Coca Cola
- Size of the Business
- Market Segmentation
- Potentiality of Markets
- Inter-Country comparative study
- Host Country's Monetary System
- National Security Policies e.g.: USA
- Cultural Factors e.g. : Fiji
- Language
- Nationalism and Business Policy e.g.: USA 's Be American, Buy American Made

STAGES OF INTERNATIONALIZATION

- **Domestic Company**
- Limits operation, Vision, Mission to National political boundaries
- **International Company**
- Focus on domestic practices but extend wings to foreign countries (Mere export-import)
- **Multinational Company**
- Different strategy for different market
- **Global Company**
- Either produce in one country and market globally or produce globally and market domestically
- **Transnational Company**
- Produces, markets, invests and operates across the world

APPROACHES TO INTL. BUSINESS

Ethnocentric

Domestic companies view foreign markets as an extension to domestic markets

Polycentric

Companies establish foreign subsidiaries and empowers its executives

Regiocentric

Subsidiaries consider regional environment for policy/strategy formulation

Geocentric

Companies view the entire world as a single unit

MODES OF ENTRY

GOALS OF INTERNATIONAL BUSINESS

- Expanding production capacity
- To achieve higher rates of profits
- Severe competition in home country
- Limited home market
- Political stability vs. instability
- Availability of technology and human resources
- High cost of transportation
- Nearness to raw material
- Liberalization and Globalization
- To increase market share
- Higher rate of economic growth
- Tariffs and import quotas

ADVANTAGES OF INTL BUSINESS

- High living standards
- Increased socio-economic welfare
- Wider market
- Reduced effects of business cycles
- Reduced risks
- Large-scale economies
- Potential Untapped markets

ADVANTAGES OF INTL BUSINESS

- Opportunity for challenge to domestic business
- Division of labour and specialization
- Economic growth of the world
- Optimum and proper utilization of world resources
- Cultural transformation
- Knitting the world into a traditional village

PROBLEMS OF INTL BUSINESS

- Political factors
- Huge foreign indebtedness
- Exchange instability
- Entry requirements
- Tariffs, quotas and trade barriers
- Corruption
- Bureaucratic practices of Govt
- Technological pirating
- Quality Maintenance

Multinational corporation

Multinational corporation/company

Multinational corporation/company

- Multinational corporation/company is an organization doing business in more than one country.
- It is integrated global enterprise which links global resources with global markets at profit
- These companies have sales offices or manufacturing facilities in many countries
- Mnc's have worldwide involvement and a global perspective in its management and decision making

Features of MNC's

- MNC,s consider opportunities throughout the globe though they do the business in the countries
- MNC,s invest considerable portion of their assets internationally
- MNC,s engage in international production and operate plants in a number of countries
- MNC,s take managerial decisions based on a global perspective.
- The international operations are integrated into the cooperation's overall business

WHY COMPANIES BECOME MNCS

- Protection
- Tap global
- Increase market share
- Reduce cost
- Overcome tariffs
- Technological advantages

Growth of MNC

- Expansion of market territory
- Market superiorities
- Financial superiorities
- Technological superiorities
- Product innovation

Classification of MNC

- Global corporation: global corporation produces in home country or in a single country and focuses on marketing these products globally
- International corporation: international corporation conduct the operations in one or more foreign countries, but with domestic orientation
- Multinational corporation: MNC,s operates in more than one country, but operates like domestic company of the product concerned
- Transnational corporation: Transnational corporation produces, market, invest and operates across the world

Advantages and Disadvantages of MNC

- Creates the demand for the home country products
- Boost up the industrial activity of the home country
- Create unemployment for home country people
- Earns foreign exchange for the home country and contributes for the balance of payment
- Get the benefits of foreign culture
- Produces the product required by the domestic consumer in foreign countries with foreign resources
- Saves the domestic country from environmental pollution
- Get the customer for the country's out dated technology

- Transfer capital to other countries ad cause unfavorable balance of payment
- May not create employment opportunities to domestic people by following geocentric approaches or outsourcing business operations in various counties like USA software companies outsourcing business operation in India
- May neglect the industrial development of the home country as the transnational companies follow the secular approaches
- May cause erosion of the domestic culture
- May exploit the natural resources resulting in excessive exploitation of natural resources

Role of MNC in developing countries

- Industrializations is in a backward state in developing countries
- Resource available in developing countries are insufficient to develop the technology and thereby industrialization
- Developing countries are rich in mineral and natural resource
- Local manpower, materials, capital etc cannot be optimally utilized by the developing countries on their own
- Developing countries would be requires to import raw materials, capital equipment, technology on their own, thus they need large foreign exchange resources
- Developing countries, though they produces goods and services on their own by importing technology and materials, they fail in marketing the product due to severe competitions

Conflict mostly arises

- Host country's companies
- Host country's government
- Host country's customer
- Host country's society
- Home country's companies
- Home country's government
- Home country's customer
- Home country's society

Conflict in MNC

- Macro economic area
- Production area
- Marketing area
- Finance area
- Human resource area
- Social and ethical area
- Environmental issues
- Competing

THEORIES OF INTERNATIONAL TRADE

Topic – Trade Theories

What is trade theories?

Trade theories are simply different theories to explain international trade.

International Trade is the concept of exchanging goods and services between two countries.

Trade theories explains how goods are traded among various nations & which goods are advantageous for trading.

For example- USA have advantage in car manufacturing, India in spices, etc.

Classification Of Trade Theories

Traditional Theories

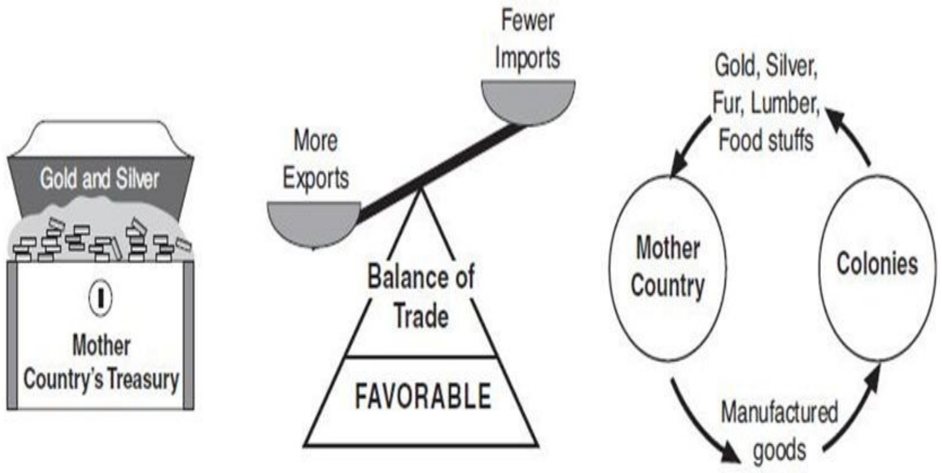
1. Mercantilism theory
2. Absolute advantage theory
3. Comparative advantage
4. Factor endowment
5. Leontief paradox

Modern Theories

6. Product life cycle
7. New trade theory
8. Porter`s diamond theory

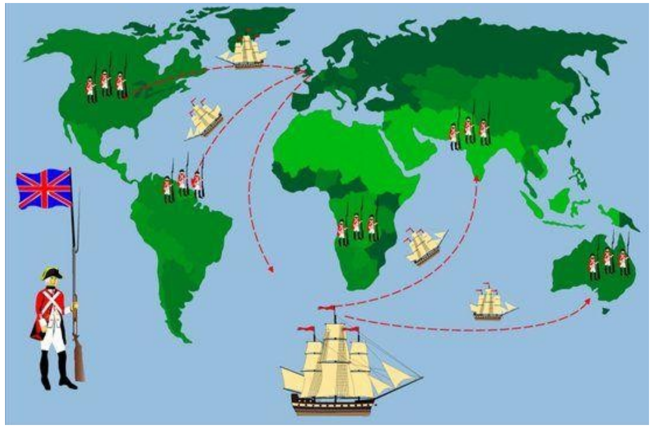
1. MERCANTILISM THEORY

- This theory was given by Thomas Mun.
- Popular in the 16th and 18th Century.
- It is based on zero sum game.
- During that time, Wealth of nations was measured by stock of gold and other kinds of metals.
- Primary goal is to increase the wealth of nation by acquiring gold.
- This theory says that a country should increase gold by promoting exports and discouraging imports.



Assumptions

1. There is a finite amount of wealth in the world.
2. A nation can only grow rich at the expense of other nations.
3. A nation should try to achieve & maintain a favorable trade balance (exporting more than its import).



Disadvantages

1. Mercantilism hardly paid attention to the welfare of ordinary workers.
2. Mercantilism was one way traffic. It focus on export but not import, it is not easy to be self-sufficient. Many countries of Europe fails to be self-sufficient which increased their miseries.

THE CONDITION OF THE LABORING MAN AT PULLMAN.—

2. ABSOLUTE ADVANTAGE THEORY

- This theory was given by Adam Smith in 1776 and argued mercantilist theory.
- This trade theory is based on positive sum game and expansion of trade.
- Absolute advantage is when a country can produce a product more effectively than other country.
- Export goods of production advantage and import goods of production disadvantage.
- Example – India has an absolute advantage in producing cotton and brazil has in producing coffee. In this both countries should supply production advantage to each other.

Limitations

1. Fails to explain how free trade can be advantageous to two countries when one country can prod goods.

1. Country not having absolute advantage can’ from free trade

1. Differences in climatic conditions & natural resources won’t lead to absolute advantage

3. COMPARATIVE ADVANTAGE THEORY

- It is developed by David Ricardo in 1817.
- This theory is the extension of absolute advantage theory. i.e. If a country has advantage in production of both commodities, then compare the efficiency of both goods.
- Produce and Export the good which can be produced more efficiently.
- Example – India can produce both truck and car efficiency but for export, India need to compare these goods with each other to find which goods has more efficiency. If car producing has more efficiency then India should produce and export manufactured cars.

Limitations

1. Ricardo's Theory was based on only two countries & only two commodities, but international trade is among many countries with many commodities
2. Assumption of full employment helps theory to explain trade on the basis of comparative advantage. Cost of production in terms of labor, may change as countries, at different levels of employment move towards full employment.
3. Even if any country stopped production, nobody in the industry wants to lose their job.
4. Another serious defect is that transportation costs are not considered in determining comparative cost differences

4. FACTOR ENDOWMENT THEORY

- Given by Eli Heckscher and Berlin Ohlin in 1993.
- Also known as factor Proportion theory or Heckscher & Ohlin theory.
- This theory is based on a country's available production factors i.e. land, labor, etc. in the country.
- It stated that countries would produce and export those goods which make intensive use of factors that are locally available in large quantities. In contrast, import those factors that are in short supply or locally scarce.
- **Example** – India has large quantities in labour so India should export labour intensive goods i.e. coal mining and import capital intensive goods i.e. oil.

Land

Capital

Labor

Limitations

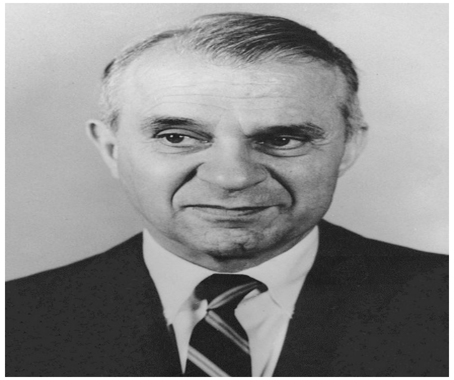
1. Ignores price differences, transport costs, economies of scale, external economies etc

2. Gives undue importance to supply & less importance to demand

3. Assumes that there is no unemployment

5. LEONTIEF PARADOX

- Findings were contradictory to predictions of Heckscher-Ohlin theory.
- Given by Wassily Leontief in 1973
- Found out that the United States—the most capital-abundant country in the world—exported commodities that were more labor-intensive than capital-intensive.
- Leontief conclude from this result that the U.S. should adapt its competitive policy to match its economic realities.



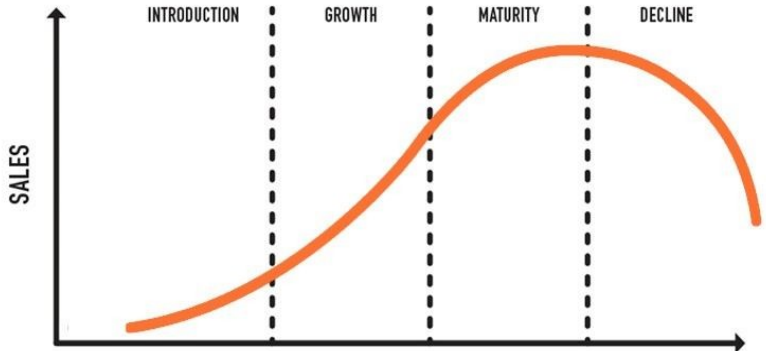
Limitations

1. Leontief considered only capital & labor inputs, leaving out natural resource inputs.

2. But in reality capital & natural resources are used together in production

6. PRODUCT LIFE CYCLE THEORY

- It is given by Raymond Vernon in the Mid 1960's and Theory consist of technology based products.
- A product goes through the life cycle i.e. Introduction, Growth, Maturity, Decline.
- Country where the product is first launched is Innovator and At the end of cycle the innovator becomes the importer.
- **Example-** America has started production of any new product that is introduction phase, after some time company has reached into growth phase where the demand has increased and starts export. In last, that product becomes global standard product so to meet global demand and to decrease cost of goods. America starts to produce goods in developing country like India for mass production and starts importing of goods from India to meet demand.



Limitations

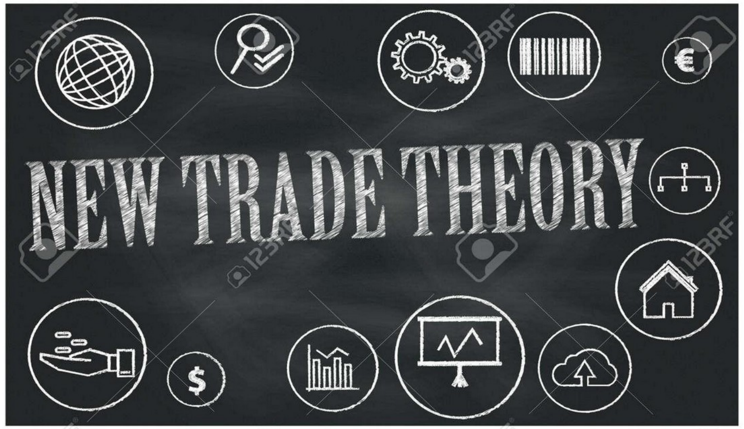
- Most appropriate for technology-based products
- Some products not easily characterized by stages of maturity
- Most relevant to products produced through mass production

7. NEW TRADE THEORY

- It is given by Paul Krugman in 1980.

- This theory tells about some of the necessary factor. A countries having these factor can become exporter.

- Those three necessary factors are
  1. Economies of sale – Reduction in per unit cost
  2. Product differentiation i.e. color, durability, brand etc.
  3. First mover advantage i.e. Capturing market



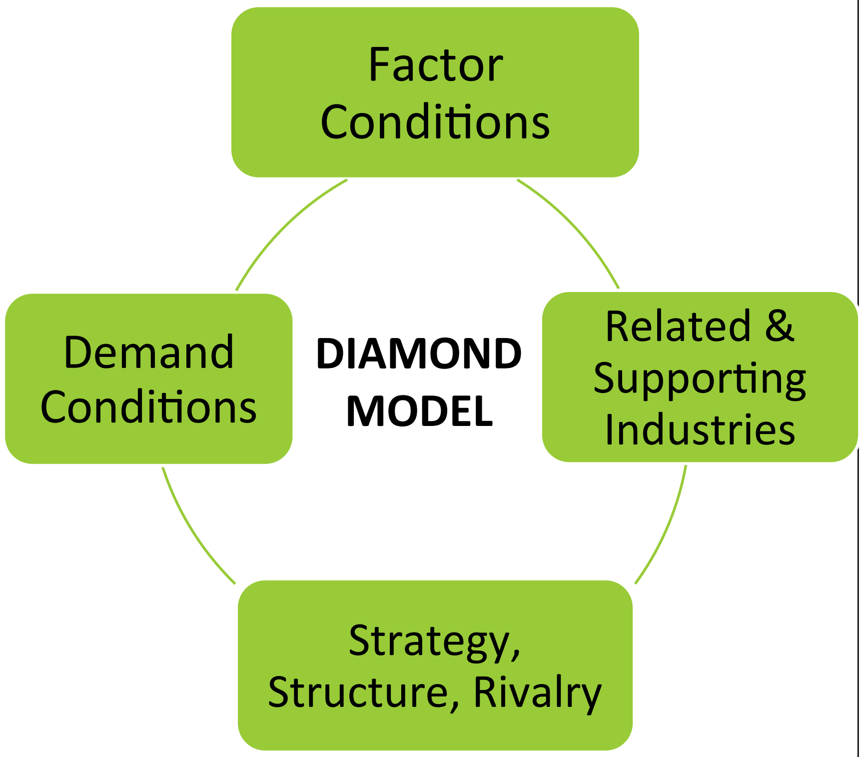
Limitations

1. Can only treat a situation when there are many firms with different production processes.

2. Assumes that all firms are well-formed, which may not be true in every case.

8. PORTER'S DIAMOND MODEL

- Developed by Michael Porter in his book 'The Competitive Advantage of Nations' in 1990.
- It is also known as National Advantage Trade Theory.
- Explains factors that are available to a nation.
- Four factors together forms "PORTER'S DIAMOD MODEL".
- These factors can give competitive advantage to the economy of country.
- Export goods from that industry where the diamonds is favorable.



Limitations

1. In his book, Porter was optimistic about future of Korea & less optimistic about future of others.

2. Other factors may influence success – there may be events that could not have been predicted, such as new technological developments or government interventions.