REASONS TO ENGAGED INTERNATIONAL BUSINESS

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Introduction

Over the years, due to rapidly growing trend towards globalization, international business is growing faster than domestic business. International business is a wide-ranging subject that incorporates exporting, importing, foreign assembly, manufacturing and sales of goods, the import to one foreign country's items from a second country for subsequent re-export or local sale, the setting-up of permanent establishments in other nations and the licensing and franchising of a firm's technological know-how or production techniques. Hence, the problems relating to international business are more complex in comparison to that in national business. Although basic tools and concepts of domestic business management are relevant to international business, yet special problems in international business that arise due to difference in language, culture, customs, traditions, religion, currency, risks, communication systems, degree of completion and competence needs to be taken carefully.

Meaning of International Business and its Nature

International business is evolved from international trade and international marketing. International business is a crucial venture due to the influence of varied social, cultural, political, economic, natural factors, and government policies and laws. A few definitions of international business are given as under.

According to **Michael H. Moffett,** *"International business is the process of focusing on the resources of the globe and objectives of the organizations on global opportunities and threats in order to produce, buy, sell or exchange of goods and services world-wide".*

According to **Michael R. Czinkota**, *"International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies and organizations.*

In the words of **Roger Bennett,** *"International business involves commercial activities that cross national frontiers. It concerns that international movement of goods, capital, service, employees and technology. It comprises importing and exporting, cross border transactions in intellectual property (patents, trademarks, know-how, copy right materials etc.) via licensing and franchising, investment in physical and financial assets in foreign countries and buying and selling in foreign countries".*

Nature /Features of International Business

It is evident from the above two definitions that

1. International business, in nut shell, means carrying business activities beyond national boundaries.
2. It includes the transactions of goods, capital, services and international production. Production may either involve production of physical goods or provision of services like banking, finance, insurance, construction, trading etc.
3. The definitions of international business focus on transactions i.e. international business is an economic activity across national borders and it differs from domestic business.
4. The basic principles of business are still relevant but their application, complexity and intensity vary substantially.
5. Subject to constant change, international business is as much an art as science.
6. In international business, the policy makers and business executives incorporates following international business considerations:
    - How will our ideas, goods or services fit into the international market?
    - Should we enter the international market through trade or investment?
    - Should we obtain our supplies domestically or from abroad?
    - What product adjustments are required to make the product responsive to local conditions?

- What are the possible threats that arise from global competition and how can these be counteracted?

7. International business includes primary and additional types of international business. The primary type includes export-import trade and direct foreign investment whereas the additional type includes licensing, franchising and arrangement contracts.
8. International business has forged a network of global links around the world that binds us all countries, institutions and individuals have come much closer than ever before.

Dimensions of International Business

Internationalization of business is a four dimensioanl concept. The four dimensions of international business, each depecting major characteristics are:

1. Internationalization of Market Presence
2. Internationalization of Supply Chain
3. Internationalization of Capital base
4. Internationalization of Corporate mindset

The figure 1.1 reveals the four dimensions of international business.

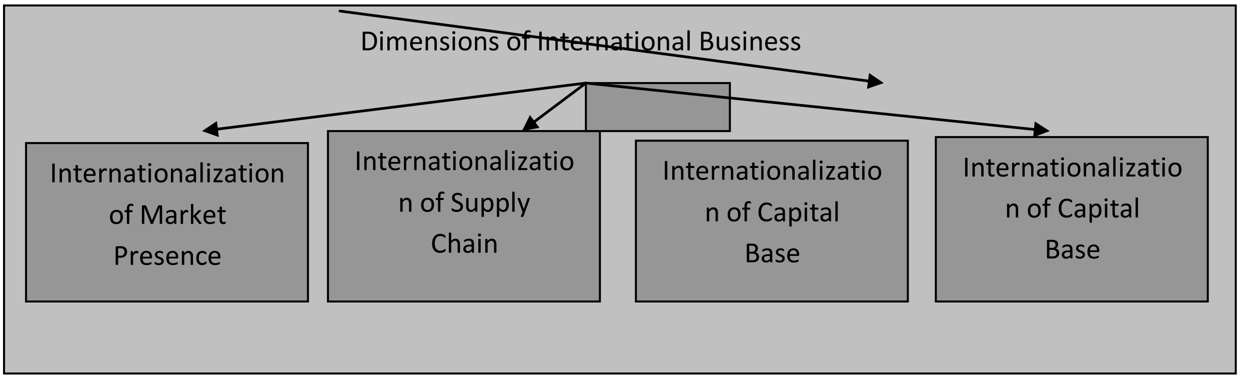

Fig.1.1: Dimensions of International Business

Table 1.2: World View (percentage regional distribution of IT sales for selected companies in 1993)

	North America	Europe	Asia
IBM	41	33	16
Fujitsu	6	26	65
HP	51	34	9
NEC	6	4	88
Compaq	45	38	5
Canon	30	29	37
Sun Microsystems	51	24	25
NTT	0	0	100
Microsoft	56	0	9

Source: The Economic Times,

1. Internationalization of Market Presence- The First Dimension

The firm/company targets the customers in all major markets throughout the world. The presence of the companiees vary from low to high. Table 1.2 shows that NTT of Japan had no presence in North America and in Europe but 100% in Asia but Microsoft, IBM and Compaq were the most globalized firms in Eurpoe and North America.

2. Internationalization of Supply Chain- The Second Dimension

The second dimension implies that the company tries to broadbase its supply chain activities at the most optimal locations in the world. For example, Toyota has a good supply chain as it exports 38% of its domestic production to foreign markets.

3. Internationalization of Capital base- The Third Dimension

It means the extent to which the company is accessing optimal sources of capital on a world wide basis. For example,China.com- The Hongkong based Internet Sevice Provider, though local in market presence and in supply chain, and yet has a highly globalized capital base.

4. Internationalizatin of Corporate Mindset- The Fourth Dimension

It refers to the ability of the company to understand and integrate diversity across cultures and markets. For example, GE company is a good example of a firm with global mindset. Its human capital is highly globalized as its leadership is diverse in terms of nationalities.

A highly globalized company in true sense may be regarded as one that incorporates these four diemsnions of international business.

Factors Leading to Wide Acceptability of International Business

International business is gaining ground day and nights. Multinational and transnational companies are growing in number. International business, which is the outcome of international trade and international marketing, involves companies buying and selling goods in the international market place. The factors leading to the wide acceptability of international business are as under:

1. Globalization of economies
2. Rapid Technological advancement
3. Emergence of supportive institutions- Financial and other Infrastructural facilities
4. Openness of economic policies among large number of countries –Structural adjustment and macroeconomic reforms
5. Establishment of WTO
6. Enlargement of European Union
7. Increase in Competition
8. Higher growth rate of GDP in developing countries
9. Increase in business alliances in degree and variety
10. Increase in educational and career orientation opportunities

1. Globalization of economies

Over the years, especially with the beginning of 1980's, the policy of liberalization was adopted which led to the globalization of various economies including the former communist countries and socialist pattern of society. The globalization of economies has been instrumental in bringing the growth of international business. The scene of international business has been changing at a fast rate after 1990s.

2. Rapid Technological advancement

The past few decades have witnessed rapid advancement in product and process technology and in information technology. Many firms have emerged up with innovated products or with improved process technology. With the demand for such products and technology being price-inelastic, these firms have moved abroad in order to reap large profits. Sometimes the developed technology is meant for a larger market than the domestic one and in such cases it is imperative for the firm to go international in order to achieve economies of scale. The development of information technology has brought different countries closer and has encouraged firms to move abroad with the minimum of difficulties.

3. Emergence of supportive institutions- Financial and other Infrastructural facilities

Technological advances have coincided with growth in financial and other infra-structural facilities. Besides the efforts of different developing countries for strengthening their infrastructural sector, it is mainly the bilateral and multilateral aid flows that have been directed towards this end. The International Bank for Reconstruction and Development has been responsible for the creation of Industrial Credit and the Investment Corporation of India and similar financial institutions in many other developing countries. Similarly, one of the primary objectives of the American aid programme has been to build up necessary infrastructure in developing countries so that American business could flourish in these countries. Whatever might be the reasons, developing countries have witnessed fast growth in their infrastructure, which has paved the way for international business.

4. Openness of economic policies among large number of countries

The other factor responsible for the growth of international business, especially since 1980s, has been the structural adjustment and macroeconomic reforms in many developing countries. Many countries were facing huge trade deficit and severe external debt problems. In such cases, they have gone for economic adjustments or reforms, in turn improving their export sector and substituting external loans with foreign investment. The natural consequence is the growing volume of international business.

5. Establishment of WTO

In January 1995 World Trade Organization was established to replace GATT. In today's highly competitive globalized business environment, WTO is indispensable for international marketing and trade. WTO membership enable a country to attain the status of MFN clause which is required for scaling the international competitiveness and it implies that any concession given to any nation becomes available to all the member countries. The WTO thus has led to the enormous growth of international business.

6. Enlargement of European Union

Since 1991 the membership of EU has increased. It increased from 15 members to 27 members. This has also led to the promotion of internationalization of business.

7. Increase in Competition

It is the growing competition that has led to the growth of international business in the past few decades. With increasing competition, firms have preferred not only to source raw material and intermediate goods from the least-cost country but also to set up their units in different countries, which minimises the cost of operation and reduces financial risk. The growing concept of cost minimisation and risk reduction, with a view to surviving in a competitive environment, has thus led to rapid growth of the internationalization process.

8. Higher growth rate of GDP in developing countries

Higher growth rate of GDP of China, India, South Korea, Singapore, Malaysia, Thailand, Brazil and Mexico and other developing countries has also been one of the significant factors for changing scenario of international business.

9. Increase in business alliances in degree and variety

During last fifteen years international business alliances, joint ventures, mergers, amalgamations and takeovers have occurred in the world by the companies of different countries. This has further led to widening of international business.

10. Increase in educational and career orientation opportunities

It has been observed that there has been an increase in educational opportunities and career orientation among the people of developing countries particularly China and India. These factors resulted in enhancement of opportunities for higher value addition in developing countries. The developing countries started attracting multinational companies to establish their businesses in their countries.

Why Companies Engage in International Business

There are several answers to the question, *'why companies engage in international business'*. Infact, there are several drivers of international business. The driving forces that motivate companies to go global can be classified into pull forces and push forces. The pull forces are proactive which pull the business to foreign markets. The push forces on the other hand are reactive forces which promote the companies to go international. Table 1.3 shoes the drivers of international business.

Table 1.3: Drivers of International Business

Pull Forces/Proactive Forces	Push Forces/ Reactive Forces
Attractiveness of the Foreign Markets • Profit advantage due to increase in volume • Low wage/ cheap labour attraction • Taking advantages of growth opportunities • Growth of regional trading blocks • Declining Trade and Investment barriers	Compulsions of the Domestic Market • Saturation of domestic demand • Scale economies and technological revolution • Technological Revolution • Domestic recession • Competition as driving force • Government policies and regulations • Improving image of the companies • Strategic vision

Pull / Proactive Forces- Attractiveness of the Foreign Markets

- **Profit advantage due to increase in volume:** Developing markets have huge markets. For companies, mostly in the developed countries, which have been operating below their capacities, the developing markets offer immense opportunities to increase their sales and profits.
- **Low wage/ cheap labour attraction:** Many multinational companies (MNCs) are locating their subsidiaries in low wage and low cost countries to take advantage of low cost production
- **Taking advantages of growth opportunities:** An important reason for going international is to take advantage of the opportunities in other countries. MNCs are getting increasingly interested in a number of developing countries as the income and population are rapidly rising in these countries. Foreign markets, in both developed country and developing country, provide enormous growth opportunities for the developing country firms too.
- **Growth of regional trading blocks:** Regional trading blocks are adding to the pace of globalisation. WTO, EU, NAFTA, MERCOSUR and FTAA are major alliances among countries. Trading blocks seek to promote international business by removing trade and investment barriers. Integration among countries results in efficient allocation of resources throughout the trading area, promoting growth of some businesses and decline of others, development of new technologies and products, and elimination of old. This process has resulted in large scale restructuring of industries and firms in the EU, with relocation of industry and many cross-border mergers and alliances.
- **Declining Trade and Investment barriers:** Declining trade and investment barriers have vastly contributed to globalisation. Thanks to the free trade regime, business across the globe has grown considerably. Goods, services, capital and technology are moving across the nations significantly. The volume of world trade has grown over 20 fold between 1950 and 2002. The average yearly outflow of FDI increased from about $25 billion in 1975 to a record $1.3 trillion in 2000.

Push /Reactive Forces- Compulsions of the Domestic Market

- **Saturation of domestic demand:** One specific reason for doing business abroad is the saturation of domestic market. The market for a number of products tends to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. In the United States, for example, the stock of several consumer durables like cars, TV sets, etc. exceeds the total number of households. Estimates are that in the first quarter of the 21st century the population in some of the advanced economies would saturate or would grow very negligibly, while in some others there would be a decline. Such demographic trends have very adverse effects on certain lines of business. For example, the fall in the birth rate implies contraction of market for several baby products. Businesses undertake international operations in order to expand sales, acquire resources from foreign countries, or diversify their activities to discover the lucrative opportunities in other countries.

- **Scale economies and technological revolution:** Another type of domestic market constraint arises from the scale economies. Economies of scale are reductions in unit production costs resulting from large-scale operations. The technological advances have increased the size of the optimum scale of operation substantially in many industries making it necessary to - have foreign market, in addition to the domestic market, to take advantage of the scale economies. It is the thrust given to exports that enabled certain countries like South Korea to set up economic size plants. In the absence of foreign markets, domestic market constraint comes in the way of benefiting from the economies of scale in some industries.

- **Technological Revolution:** The most powerful instrument that triggered globalisation is technology. Revolution is probably the right word which can best describe the pace at which technology has changed in the recent past and is continuing to change. Significant developments are being witnessed in communication, transportation and information processing, including the emergence of the Internet and the World Wide Web. Thanks to these developments in technology, MNCs are able to locate production facilities anywhere in the world to take advantage of low cost production. This trend helps create job opportunities in countries like Philippines, Mexico, China and India.

- **Domestic recession:** Domestic recession often provokes companies to explore foreign markets. One of the factors which prompted the Hindustan Machine Tools Ltd. (HMT) to take up exports very seriously was the recession in the home market in the late 1960s. The recession in the automobile industry in the early 1990s, similarly, encouraged several Indian auto component manufacturers to explore or give a thrust to foreign markets.
- **Competition as driving force:** Increased competition is one of the causes and consequences of globalization. Competition may become a driving force behind internationalization. There might be intense competition in the home market but little in certain foreign countries. A protected market does not normally motivate companies to seek business outside the home market.
- **Government policies and regulations:** Government policies and regulations may also motivate internationalization. There are both positive and negative factors which could cause internationalization. Many governments offer a number of incentives and other positive support to domestic companies to export and to invest in foreign countries. Similarly, several countries give a lot of importance to import development and foreign investment. Some companies also move to foreign countries because of certain regulations like the environmental laws in advanced countries. Government policies which limit the scope of business in the home country may also provoke companies to move to other countries.
- **Improving image of the companies:** International business has certain spin-offs too. It may help the company to improve its domestic business; international business helps to improve the image of the company. There may be the 'white skin' advantage associated with exporting-when domestic consumers get to know that the company is selling a significant portion of the production abroad, they will be more inclined to buy from such a company. International business, thus, becomes a means of gaining better market share domestically. Further, exports may have pay-offs for the internal market too by giving the domestic market better products.
- **Strategic vision:** The systematic and growing internationalisation of many companies is essentially a part of their business policy or strategic management. The stimulus for

internationalisation comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation. Many companies in India, like several pharmaceutical firms, have realized that a major part of their future growth will be in the foreign markets. There are a number of corporations which are truly global. Planning of manufacturing facilities, logistical systems, financial flows and marketing policies in such corporations are done considering the entire world as its, and a single, market-a borderless world.

- **Case Study**

Nestle- A forerunner in International Business

Nestle with headquarters in Vevey, Switzerland was founded in 1866 by Henri Nestle which is today the world's biggest food and Beverage Company. It employs around 248,000 people and has factories or operations in almost every country in the world.

In the 1860s Henri Nestle, a pharmacist, developed a food for babies who were unable to breast feed. His first success was a premature infant who could not tolerate his mother's milk or any of the usual substitutes. People quickly recognized the value of the new product, after Nestlé’s new formula saved the child's life, and soon, Farine Lactee Henri Nestle was being sold in much of Europe. In 1905 Nestle merged with the Anglo-Swiss Condensed Milk Company. By the early' 1900s, the company was operating factories in the United States, Britain, Germany and Spain. World War I created new demand for dairy products in the form of government contracts. By the end of the war, Nestlé’s production had more than doubled.

After the war Government contracts dried up and consumers switched back to fresh milk. However, Nestlé’s management responded quickly, streamlining operations and reducing debt. The 1920s saw Nestlé’s first expansion into new products, with chocolate- the Company's second most important activity. Nestle felt the effects of World War II immediately. Profits dropped from $20 million in 1938 to $6 million in 1939. Factories were established in developing countries, particularly Latin America. Ironically, the war helped with the introduction of the Company's newest product, Nescafe, which was a staple drink of the US military. Nestlé's production and sales rose in the wartime economy.

The end of World War II was the beginning of a dynamic phase for Nestle. Growth accelerated and companies were acquired. In 1947 came the merger with Maggi seasonings and soups. Crosse & Blackwell followed in 1960, as did Findus (1963), Libby's (1971) and Stouffer's (1973). Diversification came with a shareholding in L'Oreal in 1974. Nestlé's growth in the developing world partially offset a slowdown in the Company's traditional markets. Nestle made its second venture outside the food industry by acquiring Alcon Laboratories Inc. Nestle divested a number of businesses between 1980 and 1984. Nestlé's improved bottom line in 1984 allowed the Company to launch a new round of acquisitions, the most important being American food giant Carnation.

The first half of the 1990s proved to be favourable for Nestle as trade barriers crumbled and world markets developed into more or less integrated trading areas. Since 1996, there have been acquisitions including San Pellegrino (1997), Spillers Petfoods (1998) and Ralston Purina (2002).

Conclusion

However, the benefits of international business outweigh the problems. Added to this, globalization is the order of the day. Most of the countries eliminated the barriers and paved the way for the growth and expansion of international business. In fact, international business, during the third millennium (2001 and beyond) is just an extension to inter-regional business within a country.

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