Topic :- Introduction International Business
Subject :- International Business Dynamics
Class :- IV Semester MBA

Prof. Balakrishnachar.M.S
Assistant Professor
Department of MBA
Koshys Institute of Management Studies, Bangalore
Syllabus

1. Introduction to International Business
2. Globalization
3. WTO and Trading blocks
4. Global trade and Investment
5. Global ethics and E Commerce
6. Global Business operations
Chapter 01

INTRODUCTION TO INTERNATIONAL BUSINESS
PART - A

• Evolution
• Drivers and challenges of International Business as compared to Domestic Business.
• National and Organizational competitive advantage over the world
• Active players in Multinational business
PART - B

- The international environment of IB
- Political
- Legal
- Technological
- Cultural
- Demographic
- Economic environment
- Cross-cultural management
- Levels of culture
- Models to aid international managers
Evolution of Domestic Business & International Business

• Domestic Business

Commercial activities conducted within a nation or a commercial entity that conducts economic transactions inside the borders of its home nation. A domestic business typically has the advantage of only having to deal with its local currency, customs, culture, regulations and tax system.
International Business

- **International business** consists of trades and transactions at a global level. These include the trade of goods, services, technology, capital and/or knowledge. It involves cross-border transactions of goods and services between two or more countries.

### Stages in Evolution of Business

- **Local Business**
- **Regional Business**
- **National Business**
- **International Business**
- **Global Business**
What is International Business

• The exchange of goods & services, Resources, Knowledge, & Skills, among individuals & businesses in multiple/two or more countries.

• Transaction that are carried out across national borders to satisfy the objectives of individuals and organization
What is International Business

• All Commercial transactions that take place between two or more countries.

  1. Private & Government

  2. Sales

  3. Investments

  4. Logistics

  5. Transportation
Nature of International Business

1. Accurate Information & timely

2. The size of the international business

3. Market segmentation

4. International markets have more potential than domestic markets
Features of International Business

1. Large scale operations
2. Integration of economies
3. Dominated by developed countries and MNCs
4. Benefits to participating countries
5. Keen competition
6. Special role of science and technology
7. International restrictions
Importance of International Business

1. Earn foreign exchange
2. Optimum utilisation of resources
3. Achieve its objectives
4. To spread business risks
5. Improve organization's efficiency
6. Get benefits from Government
7. Expand and diversify
8. Increase competitive capacity
Is there international demand for the firm's product?

Can the product be modified to fit a foreign market?

Is the foreign business climate suited to imports?

Does the firm have or can it get the necessary skills and knowledge to do business abroad?

Stay Domestic

Go International
TYPES OF INTERNATIONAL BUSINESS

- Export – Import Trade
- Foreign Direct Investment
- Licensing
- Franchising
- Management Contract
Franchising

- A franchise is the agreement or license between two legally independent parties which gives:
  - a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
  - the franchisee the right to market a product or service

Example: McDonalds, KFC, Pizza hut,
Licensing

• A **Licensing** agreement is an arrangement whereby a licensor grants the right to intangible property to another entity for a specified period, and in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks.

Example: Disney characters,
### Difference between Franchising and Licensing

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Franchising</th>
<th>Licensing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Governed by Securities law</td>
<td>Governed by Contract Law</td>
</tr>
<tr>
<td>2</td>
<td>Registration is Required</td>
<td>Registration is not required</td>
</tr>
<tr>
<td>3</td>
<td>Training and Support will be provided</td>
<td>Will not be provided</td>
</tr>
<tr>
<td>4</td>
<td>Royalty</td>
<td>Royalty</td>
</tr>
<tr>
<td>5</td>
<td>Controling will be taken care by Franchiser</td>
<td>Licensor doesn’t have control over license</td>
</tr>
<tr>
<td>6</td>
<td>Example: McDonalds, Subway, KFC etc</td>
<td>Example: MS Office</td>
</tr>
</tbody>
</table>
Management Contract

• A management contract is an arrangement under which operational control of an enterprise is vested by contract in a separate enterprise that performs the necessary managerial functions in return for a fee. Management contracts involve not just selling a method of doing things (as with franchising or licensing) but involve actually doing them. A management contract can involve a wide range of functions, such as technical operation and of a production facility, management of personnel, accounting, marketing services and training.

• Agreement between investors or owners of a project, and a management company hired for coordinating and overseeing a contract. It spells out the conditions and duration of the agreement, and the method of computing management fees.
FDI

• A foreign direct investment is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a notion of direct control.
The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies.
## International Vs. Domestic Business

<table>
<thead>
<tr>
<th>Basis</th>
<th>International business</th>
<th>Domestic business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment</td>
<td>Mostly in foreign currency</td>
<td>In domestic currency</td>
</tr>
<tr>
<td>Laws and rules</td>
<td>Subject to international laws and regulations</td>
<td>Subject to national rules and regulations</td>
</tr>
<tr>
<td>Custom &amp; Traditions</td>
<td>Different custom and traditions</td>
<td>Same custom &amp; Traditions</td>
</tr>
<tr>
<td>Legal and economic system</td>
<td>Have to face different legal economic and tax rate system</td>
<td>It is almost the same.</td>
</tr>
<tr>
<td>Approach</td>
<td>Have to follow geocentric approach</td>
<td>Have to follow ethnocentric approach</td>
</tr>
</tbody>
</table>
1. Political factors
2. High foreign investments and high cost
3. Exchange instability
4. Entry requirements
5. Tariffs, quota etc.
6. Corruption and bureaucracy
7. Technological policy
8. Quality Management
Drivers of International Business

• Pull factors
• Push factors
Pull Factors

• Growth
• Profitability
• Achieving Economies of scale
• Risk spread
• Access to imported inputs
• Economic integration and free markets
• Emergence of WTO
• Unifying effect and peace
Push Factors

• Uniqueness of product or services
• Marketing opportunities due to life cycles
• Spreading R & D costs
• Resource utilization
• Competition and costs
• Quality improvement
• Government policies and regulations
Approaches of International Business

• Ethnocentric Approach (Home country is superior)
• Polycentric (Host country is unique)
• Regiocentric (Practice of law and rules)
• Geocentric (Global rules)
Pillars of Global Competitiveness

- Institutions
- Macroeconomic stability
- Higher education and training
- Labor market efficiency
- Technology readiness
- Business sophistication
- Infrastructure
- Health and primary education
- Goods market efficiency
- Financial market sophistication.
- Market size
- Innovation
Active players in Multinational business

- SAS Institute
- Google
- Netapp
- Microsoft
- Marriott
- Fedex express
- Diageo
- W.L. Geore and Associates
- Autodesk
- Kimberly-clark
International Environment of International Business

• Political Environment
• Legal Environment
• Technological Environment
• Cultural Environment
• Demographic environment
• Economic environment
Political Environment

It is the set of activities of the government which include plans, policies, programs and controls which directly or indirectly involves with the business.

It is usually compared to the law system, economic system, cultural system, and other social systems.

Examples:- India, Bangladesh, Vietnam, Malaysia, China, Syria.
Two party system, Multiparty system, Single party system, Dominated one party, Communist theory, Socialism theory, Capitalism theory.
Factors influencing to Political environment on International Business.

- Political ideology of government
- Political stability in the country
- Relations of government with other countries
- Defense and military policy
- Thinking of opposition parties towards business
- Policies towards international marketing
- Government control and restrictions
- Treatments of foreign investors.
Legal Environment

• The Country’s legal systems – Domestic law, International laws, Matching of Home and Host country law system.

Law has been divided into Commercial, Civil and Criminal laws

Example: code of law, Common law and theocratic law.
Factors influencing Legal Environment

• Deregulations
• Globalization
• Concern for national environment
• Intellectual property
• Product liability and safety
• Competition among business
• Bribes and corrupt practices
• Advertising and sales promotions
• Contracts.
Technological Environment

• It is the method or technique for converting inputs to outputs in accomplishing a specific task. A systematic application of scientific or other organized knowledge to practical tasks.

Factors influencing to Technological environment

• High expectations of consumers
• System complexity
• Social change
• Productivity
• Need to speed on R & D
• Problem of Techno structure
• Fear of risk
etc
Cultural environment

• Culture could be viewed as a systems of values and norms that are shared among a group of people and that when taken together constitute a design for living.

National culture, Business Culture, Organizational culture, occupational culture
Components of Culture

• Language
• Religious
• Attitudes and values
• Social organization
• Education
• Technology
• Political system
• Legal system
Factors influencing to cultural environment

- Culture determines goods and services.
- Culture determines attitude to work
- Culture and global business
- Culture and competitive advantages
- Culture and strategy
Demographic Environment

- Its encompasses the application of demographic concepts, data, and techniques to the practical concerns of business decision makers.

Examples: Age and life cycle stages, Gender, Marital status, income and social class, family and occupation, Educational and religious.
Factors influencing to Demographic environment

• age structure of the total population and its changes
• Changed family life
• Education and profession
• geographical shift in populations.
Economic Environment

• It refers to that entire economic factor which has a bearing functioning of the business unit. Business depends on the economic environment for all the needed inputs. These factors include gross national product, corporate profits, inflation rate, employment, BOPs, BOTs, interest rates consumer income etc,
Factors influencing to Economic environment

• Capitalizing emerging opportunities
• Activating management to changing needs
• Image building
• Basis of strategy
• Intellectual stimulation
• Growth strategy
• Economic system
• Economic planning
• Industry
• Agriculture and infrastructure
• Financial and Fiscal factor
• Removal of regional imbalance
• Price and distribution control
• Economic reforms
• Per capita and national income
Cross Cultural Management

• It is effective interaction and understanding of people who represent different cultures. It aims at designing feasible organization structure and management mechanism in an environment with different cultures, achieving rational allocation of corporate resources.
Models to Aid International Managers

• Hofstede’s cultural dimensions
• Edward T Hall study of cultural dimensions
• Globe cultural dimensions
• Kluckhohn and Strodtbeck’s cultural dimensions
• Trompenaars cultural dimensions
Hofstede's cultural dimensions theory

- It is a framework for cross-cultural communication, developed by Greet Hofstede.
- It describes the effects of society’s culture on the values of its members, and how these values relate to behavior, using a structure derived from factors analysis.
- Gerard Hendrik (Greet) Hofstede is from Dutch social psychologist, former IBM Employee (1967-1973) and Professor.
- The original theory proposed four dimensions along which cultural values could be analyzed:
  - Power distance index
  - Individualism vs collectivism
  - Uncertainty avoidance index
  - Masculinity vs femininity (work quality of men and women)
  - Long term orientation vs short term orientation
  - Indulgence vs restraint
Edward T Hall study of cultural dimensions

• Edward Twitchell Hall, Jr. (May 16, 1914 – July 20, 2009) was an American anthropologist and cross-cultural researcher. He is remembered for developing the concept of proxemics and exploring cultural and social cohesion, and describing how people behave and react in different types of culturally defined personal space.
Structures

• Low context and High context
  Low context (more verbal communication, more straightforward and less misunderstanding)
  High context (More non verbal communication, implying the message in a more indirect method and more confusing)

• Monochromic time and Polychromic time
  Monochromic time (doing one thing at a time, assumes careful planning and scheduling, familiar western approach that appears in disciplines such as time management)
  Polychromic time (interaction of valued over time and material things, lesser concern for getting things done, taking more time for finishing the tasks)

High territorial space (taking ownership of everything)
Low territorial space (taking less ownership)
GLOBE Cultural Dimensions

• GLOBE - (Global Leadership and Organizational Behavior Effectiveness) is the brainchild university of pennsylvania Professor Robert J House. It is a massive and ongoing attempt to develop an empirically based on theory of describe, understand and predict the impact of specific cultural variables on leadership and organizational processes and effectiveness these process
GLOBE - Implications

• Assertiveness
• Future Orientations
• Performance Orientations
• Human Orientations
• Gender Differentiation
• In-Group collectivism
• Collectivism
• Power distance
• Uncertainty avoidance
Kluckhohn and Strodtbeck’s cultural Dimension

• Kluckhohn and Strodtbeck’s model. Based on the initial research by Clyde Kluckhohn (1951), cultural anthropologists Florence Kluckhohn and Fred Strodtbeck (1961) suggested one of the earliest models of culture that has served as a principal foundation for several later models. They proposed a theory of culture based on value orientations. They suggested that values in any given society are distributed in a way that creates a dominant value system.
• Nature of People
• Person’s Relationship to Nature
• Person’s relationship to others
• Modality of Human activity
• Temporal focus of human activity
• Conception of space.
Trompenaars' model of national culture

- Trompenaars' model of national culture differences is a framework for cross-cultural communication applied to general business and management, developed by Fons Trompenaars and Charles Hampden-Turner. This involved a large-scale survey of 8,841 managers and organization employees from 43 countries.

- This model of national culture differences has seven dimensions. There are five orientations covering the ways in which human beings deal with each other, one which deals with time, and one which deals with the environment.
• Universalism vs. Particularism
• Individualism vs. Communitarianism
• Neutral vs. Emotional
• Specific vs. Diffuse
• Achievement vs. Ascription
• Sequential vs. Synchronous
• Internal vs. External control
THANK YOU