International business is a term used to collectively describe all commercial transactions (private and government, 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.

International business can be defined as the exchange of goods and services among individuals and businesses in multiple countries.

**STAGES OF INTERNATIONALIZATION**

These variations in the scenarios generally categorized into five stages, *viz.*, domestic company, international company, multinational company, global company and transnational company. Now, we study each scenario in detail.

##### STAGE - 1: DOMESTIC COMPANY

Domestic company limits its operations, mission and vision to the national political boundaries. This company focuses its view on the domestic market opportunities, domestic suppliers, domestic financial companies, domestic customers, etc.

These companies analyze the national environment of the country, formulate the strategies to exploit the opportunities offered by the environment. The domestic company never thinks of growing globally. If it grows, beyond its present capacity, the company selects the diversification strategy of entering into new domestic markets, new products, technology, etc. The domestic company does not select the strategy of expansion/ penetrating into the international markets.

##### STAGE - 2: INTERNATIONAL COMPANY

Some of the domestic companies, which grow beyond their production and/or domestic marketing capacities, think of internationalizing their operations. Those companies who decide to exploit the opportunities outside the domestic country are the stage two companies. These companies remain ethnocentric or domestic country oriented. These companies believe that the practices adopted in domestic business, the people and products of domestic business are superior to those of other countries. The focus of these companies is domestic but **extends the wings to the foreign countries.**

##### STAGE - 3: MULTINATIONAL COMPANY

Sooner or later, the international companies learn that the extension strategy (*i.e.*, extending the domestic product, price and promotion to foreign markets) will not work. The best example is that Toyota exported Toyopet cars produced for Japan in Japan to the USA in 1957. Toyopet was not successful in the USA. Toyota could not sell these cars in the USA as they were overpriced, underpowered and built like tanks. Thus, these cars were not suitable for the US markets. The unsold cars were shipped back to Japan.

##### STAGE - 4: GLOBAL COMPANY

A global company is the one, which has either global marketing strategy or a global strategy. Global company either produces in home country or in a single country and focuses on marketing these products globally, or produces the products globally and focuses on marketing these products domestically.

##### STAGE - 5: TRANSNATIONAL COMPANY

**Transnational company produces, markets, invests and operates across the worl**d. It is an integrated global enterprise that links global resources with global markets at profit. There is no pure transnational corporation. However, most of the transnational companies satisfy many of the characteristics of a global corporation. For example, **Coca-Cola, Pepsi-Cola, etc.**

**INTERNATIONAL BUSINESS APPROACHES**

International business approaches are similar to the stages of internationalization or globalization.

**Douglas Wind and Pelmutter** advocated four approaches of international business. They are:

1. Ethnocentric Approach
2. Polycentric Approach
3. Regiocentric Approach
4. Geocentric Approach.

##### Ethnocentric Approach

The domestic companies normally formulate their strategies, their product design and their operations towards the national markets, customers and competitors. But, the excessive production more than the demand for the product, either due to competition or due to changes in customer preferences push the company to export the excessive production to foreign countries. The domestic company continues the exports to the foreign countries and views the foreign markets as an extension to the domestic markets just like a new region. The executives at the head office of the company make the decisions relating to exports and, the marketing personnel of the domestic company monitor the export operations with the help of an export department.

##### Polycentric Approach

The domestic companies which are exporting to foreign countries using the ethnocentric approach find at the later stage that the foreign markets need an altogether different approach.

Then, the company establishes a **foreign subsidiary company and decentralizes all the operations and delegates decision-making and policy-making authority to its executives**. In fact, the company appoints executives and personnel including a chief executive who reports directly to the Managing Director of the company. Company appoints the key personnel from the home country and all other vacancies are filled by the people of the host country.

##### Regiocentric Approach

The company after operating successfully in a foreign country, thinks of exporting to the neighbouring countries of the host country. At this stage, the foreign subsidiary considers the regional environment (for example, ***Asian environment like laws, culture, policies, etc.),***for formulating policies and strategies. However, it markets more or less the same product designed under polycentric approach in other countries of the region, but with different market strategies.

##### Geocentric Approach

Under this approach, the entire world is just like a **single country** for the company. **They select the employees from the entire globe and operate with a number of subsidiaries. The headquarters coordinate the activities of the subsidiaries. Each subsidiary functions like an independent and autonomous company in formulating policies, strategies, product design, human resource policies, operations, etc.**

**Importance of IBE**

1. Helps in expansion:

Geographic expansion may be used as a business strategy. Even though companies may expand their business at home.

1. Helps in managing product life cycle:

Every product haste pass through different stages of product life cycle when the product reaches the last stages of life cycle in present market, it may get proper response at other markets.

1. Technology advantages:

Some companies have outstanding technology advantages through which they enjoy core competency. This technology helps the company in capturing other markets.

1. New business opportunities:

Business opportunities in overseas markets help in expansion of many companies. They might have reached a saturation point in domestic market.

1. Proper use of resources:

Sometimes industrial resources like labor, minerals etc. are available in a country but are not productively utilized.

1. Availability of quality products:

When markets are open, better quality goods will be available every where. Foreign companies will market latest products at reasonable prices. Good product will be available in the markets.

1. Earning foreign exchange: International business helps in earning foreign exchange which may be used for strategic imports. India needs foreign exchange to import crude oil, deface equipment, raw material and machinery.
2. Helps in mutual growth: Countries depend upon each other for meeting their requirements. India depends on gulf countries for its crude oil supplies.
3. Investment in infrastructure: International business necessitates proper development of infrastructure.

### GOALS OF INTERNATIONAL BUSINESS

We have discussed the characteristic features of international business and the precautions that the multinational companies should take while operating in foreign countries. Now, we study the factors affecting international business.

 **To Achieve Higher Rate of Profits:** As we have discussed in various courses/subjects like Principles and Practice of Management, Managerial Economics and Financial Management that the basic objective of the business firms is to earn profits. When the domestic markets do not promise a higher rate of profits, business firms search for foreign markets that hold promise for higher rate of profits. Thus, the objective of profit affects and motivates the business to expand its operations to foreign countries.

For example*,* **Hewlett Packard in US earned 86.2% of its profits from the foreign markets compared to that of domestic markets in 2007. Apple earned US$ 730 million as net profit from the foreign markets and only US$ 620 million as net profit from its domestic market in 2007.**

 **Expanding the Production Capacities beyond the Demand of the Domestic Country:** Some of the domestic companies expanded their production capacities more than the demand for the product in the domestic countries. These companies, in such cases, are forced to sell their excess production in foreign developed countries. Toyota of Japan is an example.

 **Severe Competition in the Home Country:** The countries oriented towards market economies since 1960s experienced severe competition from other business firms in the home countries. The weak companies which could not meet the competition of the strong companies in the domestic country started entering the markets of the developing countries.

 **Limited Home Market:** When the size of the home market is limited either due to the smaller size of the population or due to lower purchasing power of the people or both, the companies internationalize their operations. For example*,* most of the **Japanese automobile and electronic firms entered the US, Europe and even African markets due to the smaller size of the home market. ITC entered the European market due to the lower purchasing power of the Indians with regard to high quality** cigarettes.

Similarly*,* the mere six million population of Switzerland is the reason for Ciba-Geigy to internationalize its operations. In fact, this company was forced to concentrate on global market and establish manufacturing facilities in foreign countries.

 **Political Stability vs. Political Instability:** Political stability does not simply mean that continuation of the same party in power, but it does mean that continuation of the same policies of the Government for a quite longer period. It is viewed that the USA is a politically stable country. Similarly*,* UK, France, Germany, Italy and Japan are also politically stable countries.

**Availability of Technology and Competent Human Resources:** Availability of advanced technology and competent human resource in some countries act as pulling factors for business firms from the home country. The developed countries due to these reasons attract companies from the developing world. In fact, American and European companies, in recent years, depended on Indian companies for software products and services through their business process outsourcing (BPO). (See *Box 1.4*).

**High Cost of Transportation:** Initially companies enter foreign countries through their marketing operations. At this stage, the companies realize the challenge from the domestic companies. Added to this, the home companies enjoy higher profit margins, whereas the foreign firms suffer from lower profit margins. The major factor for this situation is the cost of transportation of the products.

 **Nearness to Raw Materials:** The source of highly qualitative raw materials and bulk raw materials is a major factor for attracting the companies from various foreign countries. Most of the US based and European based companies located their manufacturing facilities in Saudi Arabia, Bahrain, Qatar, Oman, Iran and other Middle East countries due to the availability of petroleum. These companies, thus, reduced the cost of transportation.

 **Availability of Quality Human Resources at Less Cost:** This is a major factor, in recent times, for software, high technology and telecommunication companies to locate their operations in India. India is a major source for high quality and low cost human resources unlike the USA, developed European countries and Japan. Importing human resources from India by these firms is costly rather than locating their operations in India. Hence, these companies started their operations in India, China and Thailand.

 **Liberalization and Globalization:** Most of the countries in the globe liberalized their economies and opened their countries to the rest of the globe. These changed policies attracted the multinational companies to extend their operations to these countries.

 **To Increase Market Share: Some of the large-scale business firms would like to enhance their market share in the global market by expanding and intensifying their operations in various foreign countries. Companies that expand internally tend to be ‘oligopolistic’**.3 Smaller companies expand internationally for survival while the larger companies expand to increase the market share. For example, Ball Corporation, the third largest beverage cans manufacturer in the USA, bought the European packaging operations of Continental Can Company. Then it expanded its operations to Europe and met the Europe demand which is 200% more than that of the USA. Thus, it increased its global market share of soft drink cans.

 **To Achieve Higher Rate of Economic Development:** International business helps the governments to achieve higher growth rate of the economy, increase the total and per capita GDP, industrial growth, employment and income levels. (See *Box 1.5).*

 **Tariffs and Import Quotas:** It was quite common before globalization that governments imposed tariffs or duty on imports to protect the domestic company. Sometimes Government also fixes import quotas in order to reduce the competition to the domestic companies from the competent foreign companies. These practices are prevalent not only in developing countries but also in advanced nations.

Having discussed the need for international business, we shall discuss the stages of international business.

**Advantages of International Business**

We shall discuss the competitive advantages of international business.

1. **High Living Standards:** Comparative cost theory indicates that the countries which have the advantage of raw materials, human resources, natural resources and climatic conditions in producing particular goods can produce the products at low cost and also of high quality. Customers in various countries can buy more products with the same amount of money. In turn, it can also enhance the living standards of the people through enhanced purchasing power and by consuming high quality products.
2. **Increased Socio-economic Welfare:** International business enhances consumption level, and economic welfare of the people of the trading countries. For example, the people of China are now enjoying a variety of products of various countries than before as China has been actively involved in international business like Coca-Cola, McDonald’s range of products, electronic products of Japan and coffee from Brazil. Thus, the Chinese consumption levels and socio-economic welfare are enhanced.
3. **Wider Market:** International business widens the market and increases the market size. Therefore, the companies need not depend on the demand for the product in a single country or customer’s tastes and preferences of a single country. Due to the enhanced market, the Air France, now, mostly depends on the demand for air travel of the customers from countries other than France. This is true in case of most of the MNCs like Toyota, Honda, Xerox and Coca-Cola.
4. **Reduced Effects of Business Cycles:** The stages of business cycles vary from country to country. Therefore, MNCs shift from the country, experiencing a recession to the country experiencing ‘boom’ conditions. Thus, international business firms can escape from the recessionary conditions.
5. **Reduced Risks:** Both commercial and political risks are reduced for the companies engaged in international business due to spread in different countries. Multinationals which were operating in erstwhile USSR were affected only partly due to their safer operations in other countries. But the domestic companies of the then USSR collapsed completely.
6. **Large-scale Economies:** Multinational companies due to the wider and larger markets produce larger quantities, which provide the benefit of large-scale economies like reduced cost of production, availability of expertise, quality etc.
7. **Potential Untapped Markets:** International business provides the chance of exploring and exploiting the potential markets which are untapped so far. These markets provide the opportunity of selling the product at a higher price than in domestic markets. For example, Bata sells shoes in UK at £100 (` 8,000) whose price is around ` 1,200 in India.
8. **Provides the Opportunity for and Challenge to Domestic Business:** International business firms provide the opportunities to the domestic companies. These opportunities include technology, management expertise, market intelligence, product developments, etc. For example, Japanese firms operating in the US provide these opportunities to the US companies. This is more evident in the case of developing countries like India, African countries and Asian countries.
9. **Division of Labour and Specialization:** As mentioned earlier, international business leads to division of labour and specialization. Brazil specializes in coffee, Kenya in tea, Japan in automobiles and electronics, India in textile garments, etc.
10. **Economic Growth of the World:** Specialization, division of labour, enhancement of productivity, posing challenges, development to meet them, innovations and creations to meet the competition lead to overall economic growth of the world nations. International business particularly helped the Asian countries like Japan, Taiwan, Korea, Philippines, Singapore, Malaysia, and the United Arab Emirates.
11. **Optimum and Proper Utilization of World Resources:** International business provides for the flow of raw materials, natural resources and human resources from the counties where they are in excess supply to those countries which are in short supply or need most. For example, flow of human resources from India, consumer goods from UK, France, Italy and Germany to developing countries. This, in turn, helps in the optimum and proper utilization of world resources.
12. **Cultural Transformation:** International business benefits are not purely economical or commercial, they are even social and cultural. These days, we observe that the West is slowly tending towards the East and *vice versa*. It does mean that the good cultural factors and values of the East are acquired by the West and *vice versa*. Thus, there is a close cultural transformation and integration.

**QUESTIONS FOR DISCUSSION**

How is international business broader in scope compared to international trade and international market?

Explain the nature of international business.

Why is international business a crucial venture?

Why do business firms of a country go to other countries? Give your answer with suitable examples.

5. State the different approaches to international business.

What are the competitive advantages of international business?

Why is international business not a bed of roses? Elucidate your answer with suitable examples.

*Globalization of Business*, White Paper to the Government of UK, 2004, p. 18.

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