

UNIT 189 – UPSC - International Business Environment (International Business)

International business has grown rapidly in current environment as Markets have become global for majority of products and services and especially for financial tools. The technical advancement also made possible companies to trade in different parts of the world. International business denotes the buying and selling of the goods and services around the world. World product trade has expanded by more than 6 percent a year since 1950, which is more than 50 percent faster than growth of output the most dramatic increase in globalization, has occurred in financial markets. In the global forex markets, billions of dollars are transacted each day, of which more than 90 percent represent financial transactions unrelated to trade or investment. These business activities may be of government or private enterprises. Since earlier time when the terms of international business was evolved, many researchers such as Vernon (1966), Fayerweather (1960), and others, have expressed the significance of the international business environment in international business studies. Nehrt, Truitt, and Wright (1970) recommended that international business research is "concerned with the interrelationship between the operations of the business firm and international or foreign environments in which the firm operates", and that "more attention is being devoted to the environment of international business". Guisinger (2000, 2001) argued that the IBE is the central element that established IB as a distinct discipline because the IBE is the idiosyncratic feature that distinguishes IB research from other management areas, and from studies of management of large-scale enterprises. Boyacigiller and Adler (1997) argued that "by definition, IB is contextual. It specifically includes the external international environment in which firms conduct business; that is, the international context in which firms are embedded. It is precisely the nature of this embeddedness in an external international environment that has distinguished IB from other areas of management inquiry".



Concept of International Business

International business is associated with all business movement that are performed beyond national borders. Management theorists have formulated numerous theories to explain international business environment. Some theorists avowed that international business is defined as an organization that buys and/or sells goods and services across two or more national boundaries, even if management is located in a single country. Many scholars stated that international business is equated only with those big enterprises, which have operating units outside their own country. Other theorists defined that international business environment is the commercial activities crossed national borders. It includes the global movement of good, capital, services, employees and technology; importing and exporting; cross-border transactions in intellectual property such as patents, trademarks, know-how, copyright materials through licensing franchising and management contracts. Group of researchers stated that international business environment is the deal done by individual or organisation at global level in order to accomplish the objective through export, import and foreign direct investment. International business, whether in its conventional form of international trade and finance and contemporary types of multinational business operations, it is operated at huge scale and has great impact on political, economic and social field. It is observed that many foreign operations and the comparative business are used as equal for international business. Overseas business denotes to domestic operations within an overseas nation. Comparative business focuses on similarities and differences among countries and business systems for focuses on similarities and differences among countries. The fundamental objective of international business to gain profit. When firms do not get profit in domestic market, they look for foreign market for lucrative business.

Scope of International Business

International business has wide scope as it focuses on the particular issue and opportunities that appear in business environment as organization operates at global scale. International business is the generalized field of business, adapted to quite exceptional features in global environment. The characteristic feature of international business is that international organizations operate in uncertain business atmosphere and subject to rapid change as compared to the domestic environment. Numerous factors and environmental variables that are important in international business such as foreign legal systems, foreign exchange markets, cultural differences, and different rates of inflation are either largely irrelevant to domestic business or are so reduced in range and complexity as to be of greatly diminished significance. Domestic business is a limited case of international business. The characteristic feature of international business is that international firms operate in environments that are highly uncertain and where the rules of the game are often ambiguous, contradictory, and subject to rapid change, as compared to the domestic environment.

Problems or Major Issues in International Business

Many investigators have found that when firms operated at international scale, they face numerous challenges and issues. International businesses have to conform to the local rules and regulation in which they operate. Organizations when expand their business in other countries,

they have foreign languages and difficulty to gather information about foreign countries. They have to deal in foreign currency. The exchange rate may be varied. When working in other countries, their culture and social value must be taken in account. The risk factor is high in overseas business operations that include political, commercial, and financial. Communication and control of international business is complicated. It is very difficult to understand the demand of the international market. One of the major issue international businesses is trade restrictions. A trade restriction, particularly import controls, is a very important problem, which an international dealer faces. It is observed that Trade practices and customs may differ between two countries. Some of the issues in international business environment include social, ethical, environmental and legal issues.

Benefits of International Business

Though firms have to undergo numerous problems when expanding their business in other countries, but the international business brings countries together. It creates an atmosphere of unity and makes the world as global village. It exchanges the ideas, information, service, and capital across the country's borders. This has positive outcomes in terms of best use of human capital that increases employee opportunity. There is equal growth of wealth, price stability, availabilities of goods and services to each and every one. It also brings new environment of alliance, development, stability, affluence, modernization and technology in the world. Foreign markets create a larger share of the total business of many firms that have wisely cultivated markets aboard.

The benefits of export are clearly acknowledged. Imports can also be highly useful to a country because they constitute reserve capacity for the local economy. Without imports, there is no incentive for domestic firms to moderate their prices. The lack of imported product alternatives forces consumers to pay more, resulting in inflation and excessive profits for local firms. This development usually acts as prelude to workforces demand for higher wages, further exacerbating the problem of inflation. The prospects of a business depend not only on its resources but also on the environment. To adapt to the international business environment, the multinational corporations need to engage in systematic collection of information on all environmental dimensions and the economic agents in the local markets, processing this information to enhance environment knowledge, identification of the more vulnerable internal areas and external opportunities towards a better environmental fit; and implementation of the "best practices" more adjusted to the identified environment. In the following sections we will argue that firms' ability to adapt to the environment is a resource, or a capability, whose foundations lye in the human resources' stock of knowledge and experiences that seek a better fit to promote better performance. Hence we argue that it is also a crucial source of competitive advantage in a competitive game that does not attain a neoclassical long-term equilibrium

To summarize, the globalisation of businesses and markets results in the global business environment, this is concerned about the context of the international trade transaction. In international business, there are many issues like language barrier, economic policies of particular nation, cultural differences and higher complexity, of risk and uncertainty because organizations is not operating in recognizable environment but rather with an international environment. In spite of various issues, International business environment has many positive aspects such as it

contributes new technology, managerial skills, infrastructure development, creating jobs and bringing in investment capital from other countries by exporting products and providing better services. Global business demands that companies manage their worldwide operations efficiently and on the basis of honesty, corporate integrity, following ethical standards and understanding the sense of responsibility.