International Business Management

International Business Management Study Notes- International business is a method of carrying the business activities on the far side of national boundaries. International Business Management normally includes the transaction of economic resources such as goods, capital, services (comprising technology; skilled labour and transaction etc.) and international production.

In simple words, International Business Management implies buying and selling goods and services across the border. International business involves several complexities that are associated with intra-firm dealing and so-called unacquaintance with the host-country environment that may be restrictive, economic and monetary, political and legal, socio-cultural, moral etc.

Modes of entry in International Business Management

1. **Exporting Modes:** Export is the process of selling goods and services produced in one country to another country. It is the easiest method of entering international markets. The exporting mode of entering the foreign market can be classified as follows:

A) Indirect exporting

B) Direct exporting

C) Intra-corporate transfers

2. **Contractual modes:** Contractual entry modes are found in the case of intangible products such as technology, patents, and so on. These modes can be categorized as follows:

A) Licensing

B) Franchising

C) Contract manufacturing

D) Management contracting

E) Turnkey projects.

3. **Foreign Direct Investment (FDI):** It refers to direct investment in a production unit in a foreign country. FDI mode again is classified as:

i) Greenfield investment: The parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

ii) Brownfield investments: Strategic alliances can take different forms like licensing, franchising, contract manufacturing, Joint Ventures etc. An alliance is a strategy to explore a new market which the companies individually cannot do.

4. **Mergers and Acquisitions (M&As)**: Mergers and Acquisitions are of horizontal, vertical and conglomerate types. These mergers are either hostile or friendly. The reasons behind M&As, are reaping of synergistic advantage, overnight growth of an organisation, risk minimization and tax savings etc.

5. **Joint venture:** It is an entity formed between the two or more parties to perform the economic activity together. The parties work on creating a new entity to share in the revenues, expenses, and control of the enterprise.

B. Orientation of Firms in International Business

- According to **Howard Perlmutter,** a way of classifying alternative management orientations is generally referred to as Perlmutter's **EPRG model.** According to this model, the businesses and their staff tend to operate in one of four below listed ways:

1. **Ethnocentric orientation:** Ethnocentrism is based on ethnicity and is home country oriented. This orientation considers that the product, marketing strategies and techniques applicable in the home market are equally applicable in the overseas market as well.
2. **Polycentric orientation:** Polycentrism is based on political division and is host country oriented. When an organisation adopts this approach to overseas markets, it attempts to organize the international marketing activities on the basis of the country to country dealings.
3. **Regiocentric orientation:** Regiocentrism is based on regional similarities. In this approach, an organisation accepts a regional marketing policy in which a group of countries are covered that have comparable market characteristics.
4. **Geocentric orientation**: Geocentrism is based on the world as a whole and is globally oriented. In Geocentric orientation, the firms accept a worldwide approach to marketing and its operations become global.

C. Process of Internationalization of a Firm

1. **Domestic company:** A purely domestic company operates domestically because it never takes consideration of going outside the home country. A domestic company might extend its products to the international markets by exporting, licensing and franchising.
2. **International company:** International companies are importers and exporters.
3. **Multinational companies (MNC) or Multinational Enterprise (MNE):** A business is termed as a multinational company if it has its operations in two or more countries and the number of countries ranges from 2 to 10. These companies are more focused on adapting their products and services to each individual local market.
4. **Global Companies:** A business is termed as a global company if it has its operations in at least 15-20 countries. The global market sells its products through the use of the same coordinated brand in all other markets.
5. **Transnational Companies:** It can be considered a mixture of global, multinational and international companies and are much more complex organizations. While global and multinational companies adopt a centralized organizational structure, a transnational company adopts a decentralized organization structure.

D. Theories of International Trade

1. **Theory of Mercantilism (1630: Thomas Mun):** This theory suggests that it is in the country's best interest to maintain a surplus of trading services i.e. to export more than its imports. Trade surplus can be defined as an excess of export over import.
2. **Theory of Absolute Advantage (1776: Adam Smith):** It explains that a country having an absolute cost advantage in the production of the product on account of greater efficiency should specialize in its production and export. A country has an absolute advantage if it can produce the same quantity of goods and more efficiently than any other country.
3. **Theory of Comparative Advantage (1817: David Ricardo):** This theory explains that a country should specialize in the production and export of a commodity in which it possesses the greatest relative advantage.
4. **Theory of Reciprocal Demand (1844: J.S. Mill):** According to J.S. Mill, the equilibrium trade terms are decided by the equation of reciprocal demand. Reciprocal demand suggests the relative strength and snaps of demand of the 2 mercantilism countries for every other's product in terms of their own product. A stable quantitative relation of exchange is going to be determined at a level where the value of imports and exports of every country is in equilibrium.
5. **Factor Proportions Theory or Heckscher-Ohlin theory(1919: Eli Heckscher and Bertil Ohlin):** This theory explains that a country should produce and export that commodity which primarily involves a factor of production abundantly available within the particular country.
6. **Leontief Paradox:** A study was conducted by Wassily-Leontief in 1953, where he tested the validity of the Heckscher-Ohlin theory. It refers to the empirical evidence based on the US export of labour-intensive goods challenging the factor endowment theory.
7. **Porter Diamond Theory of National Advantage (1990: Michael Porter):** It refers to the factors responsible for maintaining a nation's competitive advantage, as explained by porter.

E. Barriers to International Business

Trade barriers are government-induced restrictions on international trade, that typically decrease overall economic potency.

Trade barriers may be:

(i) Tariff barriers and

(ii) Non-tariff barriers or protecting barriers.

(i) Tariff barriers: They have been one of the traditional methods for regulating international trade. Tariffs may be referred to as taxes/duties on imports. It aims at limiting the inward flow of products from alternative countries to safeguard the country's own industries by creating the products costlier in this country.

*In India, impost forms a big part of the whole revenue, and therefore, is an important element in the budget.

*Specific taxes, imposed on the basis of per unit for any identifiable characteristics of merchandise such as per unit volume, weight, length, etc.

*Ad-valorem tariffs area unit supported the worth of imports and are charged within the variety of such proportion of the worth of products.

(ii) Non-Tariff barriers: These barriers are ones that protect the domestic/homemade industries against unfair competition and give them a genuine chance of survival. Various countries are adopting non-tariff measures. Some of these are:

a) Quantity restrictions, quotas and licensing procedures.

b) Foreign exchange restrictions

c) Technical regulations

d) Voluntary export restraint

e) Local content requirement