International Business: Nature, Scope and Importance

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Abstract:

International Business (IB) has been in prominent role for centuries together. IB means carrying on Business activities beyond national boundary. It's role has assumed the significance both at the macroeconomic and micro economic levels and become indispensable for any country. IB includes not only international trade of goods and services but also foreign investment and particularly foreign direct investment (FDI). No country developed or developing can produce all products of its needs. In a developing country, the number of products is often limited as a result of which its imports are in a large range. Hence, it tries to expand its exports to earn valuable foreign exchange that in turn, could be used to meet import needs. At present, advances in information, communication and transportation in economies as well as in managerial and organization methods, facilitate the internationalization of many firms. Globalization which links countries closer than over before with each other . MNCS (Multinational Corporations) rather being seen as part of 'development problem', are deemed as part of the solution. This paper deals with the nature, scope and importance of International Business.

Keywords: International Business, FDI, Micro Economic, foreign exchange, MNCS.

Introduction:

International business means a business (firm) that engages in international (cross-border) economic activities and or the action doing business abroad. Another definition reads as international business is a process of focusing on the resources of the globe and objectives of the organization are on global business opportunities and threat in order to produce, buy, or sell or exchange of goods and services world-wide.

At one end of definitional spectrum, international business is defined as organization that buys and or sells goods and services across two or more national boundaries; even of management is located in a single country. At the other end of the spectrum, international business is equated with only those large organizations which have operating units outside their own countries. In the middle are institutional arrangements that provide for some managerial direction of economic activity taking place abroad but stop short of controlling ownership of the business carrying on the activity, for example : Joint ventures with locally owned business or with foreign Government.

Domestic firms actively complete and or collaborate with foreign entrants is multinational enterprises. Many previously national (Domestic) markets are now globalize (around the globe). International business has become massive in scale and has come to exercise a major influence over economic, social, political and technological developments throughout the world. Domestic business must at least be aware of international sources of competition. Because they are an ever-present and growing threat as international business relationships become increasingly intricate and complex.

Scope of International Business Activities :

International business is an integrative study that has the potential to provide you with an overall business perspective (as opposed to functional view like marketing, financing, management etc) grounded in global environment. To be realistic, it involves the broadest and most generalized study of the field of business, adapted to a fairly unique across the border environment. Many conditions and environmental variables that are significant in internal business (such as foreign legal System, foreign exchange markets, inflationary trends, and cultural differences) are mostly irrelevant to domestic business. However, global integration in trade, investment, factor, technology and communication has been in practice for economies together. International business can well be broken down into foreign trade, trade in services, portfolio investment and direct investments (FDIS).

The fundamental and the largest international business activity in many countries is the foreign trade comprising exports and imports. Physical goods / commodities or merchandise leave the country in export. Imports are those goods brought across the national borders into a country.

The international firms also trade in services banking, insurance, consulting, travel and transportation etc. earn in the form of feel or royalties. The fees are earned through short or long term contractual agreements such as consultancy or management contracts or turn key projects. Royalties are received from the use of one company’s name, trademark, patent or process by someone else. Alternatively a firm can earn royalties from abroad by licensing the use of its technology information, Franchise in overseas markets.

Portfolio investments are financial investments made in foreign countries. The investor purchases debt or equity in the expectation of financial return on the investment.

Foreign direct investment or direct investment is one in which investor is given collecting interest in foreign company. FDI maybe in the form of a Joint Venture or a wholly owned subsidiary. Joint venture is a shared ownership stake with equal share in a foreign business. Indian joint ventures abroad are operated in more than 868 projects / enterprises. A wholly owned subsidiary can be established in foreign markets either in the form of totally new operation or acquisition of an established firm and use the firm to promote its products. The subsidiary, if it is established starting from the ground up is called a Greenfield investment.

However, there needs to be the perspective of the international business. That is, the firm’s senior management should clearly define the firm’s guiding principles in terms of international mandate rather than to allow firm’s international activities to develop as an incidental or adjunct to its domestic activities. This would help to focus the attention of mangers on the opportunities and threats external to domestic economy.

i) Sell in those global markets when prices are highest.
ii) Reuse finances globally.
iii) Forge international strategic alliances.
iv) Take on the best talent from all over the world. You will have achieved the stature of a true MNC.

Type of International Business :

The following are the different activities which come under the preview of international business.

1) Trading import and sport of goods and services are rapidly growing. ln Japan their international trading houses have enormous transactions of business. . The export houses, trading houses, star trading houses. Superstar trading houses of India are merchants buying and reselling goods.

2) Manufacturing & Marketing Many maces and other small & large m3: do manufacturing and market. Manufacturer exporters are those who export 900 manufactured by them.
3) Sourcing: Marketing Many MNCS and other firms which outsource the products when they market at home and abroad.
4) Global Sourcing for production some firms which source globally their raw materials intermediaries etc. required for their manufacturing.
5) Services the variety of services is fastiy group sector of international business The tourism and transportation it, banking insurance, consultancy etc. are the different segments.
6) Investments international portfolio investment ever increasing on account of globalization. FDIS are associated with manufacturing & marketing facilities abroad.

Importance of international Business :

The factors or reasons which provoke or motivate firms for international business may be broadly divided into two categories viz the pull factors and push factors.

The pull factors are proactive reasons and those forces of attractor which pull the business to the foreign markets with a view to achieve relative profitability and growth. The push factors pertain to the compulsions of the domestic market prospects like saturation of the market which drive firms to internationalize. Most of the push factors are reactive reasons.

The following are the reasons for going international business:

1) A Profit advantage- When intro-national business is less profitable than domestic, there is an increase in total prom. There are many firms which make major share of their profits from the foreign markets for instance certain MNCS which earn percent profits from foreign markets.
1. In certain cases when exporting even on no-loss-no -profit basis is available ,because by optimum utilization of the capacity the profitability of domestic business is increased. While in some cases, the whole manufacturing of a product or only certain stages of it are done abroad to reduce the cost of production.
2) Growth opportunities -Foreign markets both developed country & developing country provide substantial growth opportunities for the firms from developing country. MNCS are interested in no. of developing countries due to fastly rising in their income and population of the estimated 1 billion increase in world population during 1999 to 2014; only about 3% Will be in the high income countries, Foreign markets, both developed and developing countries after ample opportunities for devel0ping country firms also.
3) Limitations of Domestic Market : Some demographic trends such as contraction in birth rate decline in domestic demand, fully tapped market potential have adverse effects on some businesses. When domestic market is smali, international business is the alternative for growth. Recession in the home market drives companies to explore foreign markets.
4) Competition : A protected market does not lead company to seek business outside the home market. The economic liberalization in since 1991 invited competition from foreign firms as well as from domestic ones. The counter competitor so as to diminish its competitive strength.
5) Govt. Policies : Many Govt. provide incentives to domestic company to export and invest in foreign countries while some countries give no importance. Domestic foreign company are permitted to enter certain industries subject to certain conditions for export. in many cases Govt. gives permission to cos to earn foreign exchange for their imports and make payments for royalty, divided etc. as per foreign exchange requirements.
6) Monopoly Power: it may arrive from patent rights, technological advantages, product differentiation etc. Another reason for internationalization is exclusive market information

(pertaining to knowledge about foreign customers, market places I situations not widely shared by other time).

7) Spin off benefits Int. mgt. business is a means of gaining better market share domestically as it improves the image of the co. when domestic customers know that the co is export making co., they will be more tempted to buy from such co. Moreover, co would be benefited by eco incentives of the Govt.
8) Strategic Management: There are many global corporations which plan for manufacturing facilities, logistical systems, finance flows and marketing policies considering the entire world as a single market.

Conclusion:

A business that engages economic-activities in inter-international cross border form and its action of doing business abroad is international business, international firms go globally to maximize benefits and minimize risks. A firm is provoked to be an international firm to expand sales, acquire resources and diversity them for which there are some pull factors and/or push factors.

The international business encounters different economies, cultures, legal systems, Governments, technologies which need to be integrates with business policies and practices.

A company can engage in international business through various operating modes including exporting and importing merchandise and services, direct and portfolio investment and collaborative arrangements with other companies. Environment provides opportunities to business and sometimes poses challenges. International business companies formulate business strategies to exploit the Opportunities offered by the environment. Thus, difference in business environment that makes international business different than domestic business .

There are various kinds of environments-viz-economic, cultural, social, legal, technological, political, natural environment and having its unique position therein environment of international business. Let us have glances on these environmental influences on business in general and international business in particular.

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