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International business: Detailed discussion

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Abstract
Today the role of International business management is the maximum as compared to the previous years or decades. Most of the organization wants to expand its business globally by participating in cross-cultural activities with the help of joint ventures, collaborations, etc. International business has increase the scope for availing so many opportunities with challenges for individuals, management, organization or to the local government. It involves understanding of cross-culture, interactions with MNC's, corporate prescriptive. With the help of this paper, we will learn about International business, its environment, and challenges of international business and modes to enter into international trade.

Keywords: Opportunities, challenges, international business and management

Introduction
International business is the process of increasing the activities of the business from local to global level with the motive to target foreign consumers. It is defined as a business activity which helps in extending the business beyond the boundaries of other competing countries or the activity which is taking place across the national borders. In International business, business transactions take place in more than once country. It includes goods transfer, technological transfer, and transfer of capital to foreign countries. It involves exports and imports of goods and services. It is also called as global marketing. It is the operation of business activities done by any company in the foreign market. It is also called as expanding the functions of the business in different countries having the motive to fulfill the requirements of the international consumers. By expanding the local market into global one, the need for managers who have knowledge regarding the international trade, environment of international trade, culture, politics, currency, time, technology etc. of the foreign countries. In today's world, there is an increase in knowing what is happening worldwide and what kind of economic relationships; our country has with the other countries. Today every country is dependent on other country economically. The area of International Business is very wide, so the managers are required to have a very vast knowledge in all the disciplines.
International management not only depends on the competency of a business or a country to trade in foreign market but also the knowledge and skills are required to operate and be successful in the world of International business. Multicultural managers are important because they work with people from same countries and from other countries who have different perception, thinking. An international manager is the person who needs to hold ideas, policies and people who belongs to various environments to achieve the objectives of the business. Now is an era of globalization, which has created many challenges to the managers. These challenges are to analyze the environment, and its effect on domestic company. International business includes export and import of goods and services, providing license for manufacturing the goods and services in the host country. It also includes a new venture with foreign company. Opening a branch is also included in this for production and distribution of the goods in host country. It provides managerial services to the organizations of host country.

Approaches to International Business: Approaches of International business are as same as the steps of internationalization. In short approaches to International business is also called as the process of Industrialization. 4 kinds of approaches are there to define the way to enter into industrialization process. They are:

1. **Ethnocentric Approach:** This kind of approach is suitable for the organizations which are in their earlier stage of globalization and it is also suitable for small organizations.

According to this approach, local companies generally make their strategies according to the domestic market, competitors and consumers. But if the production is done in excess more than its demand, due to any reason, then they push the excessive production to the foreign market as exports. For them, foreign market is just like a new region of domestic market as an extension. The main managers of the company decide to export the product and the marketing department of the domestic firm monitors the export with export department. The products exported in this approach are as same as the products designed for local market. Thus having domestic approach towards the export to international market is ethnocentric approach.

2. **Polycentric Approach:** The companies which use ethnocentric approach later use polycentric approach for the trade in foreign market. In this approach, the organization creates a subsidiary company in the foreign market and delegates all the authorities to the executives of the company. Some new executives are also appointed who have direct authority to give report to the Managing Director of the organization. The key managers are appointed from the domestic country and the other personnel are appointed from the host country. The main executives formulate the policies and strategies on the basis of needs of foreign market. This approach is more concerned towards the host country and makes policies and strategies accordingly.
3. **Regiocentric Approach:** The companies after being successfully established in the foreign market, and then decide to export its product to the countries which are in neighborhood of the host country. In this stage, the subsidiary company formulates its policies and strategies according to regional environment. The same product is designed in this approach for the whole region but different marketing strategies are used for sale of products in markets of different country.
4. **Geocentric Approach:** Under this approach the whole world is treated like a single country for the organization. Numbers of subsidiaries are established in the different countries of the world and the employees are appointed from different countries. There is a headquarter for all the subsidiaries which coordinates their activities. Every subsidiary company operates as an independent company by formulating their own policies, strategies, operations and design of products.

International Business Environment: Any business can become successful only if the strategies for orientation of business environment are made. There are differences between the operations of domestic and international companies. To formulate the best strategy, it is necessary to understand the global market. To extend the domestic market into foreign market, only understanding the consumers is not enough, study of marketing environment is also necessary. The success and failure of any strategy depends on the organizational ability to understand the environment of international business. The essential components of business environment are: Domestic environment often called as internal environment and foreign environment called as External environment.

1. **Internal Environment**: It is also called as the domestic environment of the organization. This environment is controllable in nature. It is the competence of a domestic industry to work in a foreign environment. Components of Internal Environment are:

- **Mission:** The mission of an organization is the backbone of a firm. It is the course of action followed by a firm to achieve success. Today, the firm develops its mission on the basis of its core competencies. They don't do joint ventures very much, but they focus on their strengths.
- **Quality of Human Resources:** It includes the strengths and weakness of the human resources of an organization. Here the competency of the employees to work globally is identifies and the employees who are motivated to do work in more competitive environment are selected for the firm.
- **Organizational Structure:** The organizational structure of any business is as important as its human resources. It includes policies, strategies etc. and centralization and decentralization of authority and powers.
- **Corporate Culture:** Corporate culture of any organization is dynamic in nature because the workforce of any firm is made up of people of different culture having different language, beliefs. So it becomes necessary to maintain a proper corporate culture.

2. **External Environment**: It is also called as global environment because here the factors affecting the trade between two or more countries are there. This environment is uncontrollable in nature. It consists of the environmental conditions prevailing in the global environment and affects the international business. Components of External environment are:

- **Economic Environment:** It is one of the most important parts of global trade. As the most important indicator for potential of market is the income of a country, the potential of a country can be determined by its per capita income. This kind of environment plays a major role in International trade because only if a country has enough money to do trade domestically and the profit earned thereon, can determine its competency to do international business globally.
- **Political Environment:** If the firm wants to venture with foreign companies, the organization has to face the political factors of all the countries with which it has to do business. Government policies have direct impact on the business because government has its own policies, rules and regulations, and priorities. The mechanism of political factors affects the countries because the business has to face and follow the political rules of the country, they want to do business with.
- **Legal Environment:** The organization need to study the legal and regulatory system of the country with the other countries to avoid the problems which in the end may result in problems or misunderstanding, or violating the laws of the country, because doing business with foreign countries require a huge amount of investment, so it necessary to study the legal environment of the other country.
- **Cultural Environment:** It is the combined form of values, beliefs of a society. It includes religion, caste, race, traditions, language, beliefs, taste and preferences, habits of buying and consuming. It influences the

business directly and heavily. It is the most important environment to study while doing international business. In some organizations, all the decisions are made by top management while in some decisions are made with combined discussion of whole organization. Some organization take risks taking decisions, while some avoid it. The risk bearing pattern is called as cultural affect.

- **Demographic Environment:** It is said about management that it is made up of men while marketing is made up of people. All the activities of a business have single central point which is people. They are the main reason of any business. So, any change in people affects the business. It includes size of population, their distribution according to the age, their migration from village to city or from one country to the other and the education and occupation of the people.
- **Technological Environment:** It is the factor which causes a huge impact on the business. The techniques or technology use by the business, affects the result of the business. Today, people have all the information regarding new technology prevailing in the market on internet. Any business needs to use technology as the advantage to gain the opportunities and make it successful in the world of international business.

Challenges of International Business: It is not possible to succeed without having any challenges because more challenges mean more opportunities which are a factor to success. There is lot of opportunities in the business environment for growth of business; it also involves few challenges which may affect the business adversely if not taken care of. The main challenges for International Business are:

- **Language and Cultural Barriers:** Every country has its own language and its quite challenging to know the languages of all the countries you are dealing with. For doing International business, it is necessary to appoint bilingual staff and if not possible, they need to outsource regional customer service and hire freelancers who can translate on the behalf of the company.
- **To recruit best Talent:** As the business grows in foreign market, the new staff is required to solve the issues and to operate the business without any hurdle. For this, the need of outsourcing IT employee is necessary to overcome the challenge of uncertainity which comes with the growth of international business.
- **Underdeveloped Infrastructure:** Developing countries have underdeveloped infrastructure for technology, even if they offer high potential for foreign trade and cost effective labor. It becomes challenging for companies which are based on web. It can be solved by distributing the load of servers in large areas, to reduce the latency.
- **Incapable internal operations:** Growth of International Business increases the challenges for internal operations of the organization. The processes of operations of business keep on changing and the old process consumes more time and makes the growth of company slow. Automation of internal operations helps to prevent incapability of operations which helps the business to run smoothly.
- **Universal methods of Payment:** The growth of E-commerce websites, make the sale of goods easier and affordable to the consumers overseas. Payment methods are different of every country. It is necessary to have acceptable payment methods to ensure secure transfer of money as the main consideration for the business who wants to trade globally.
- **Rate of Currency:** Setting of price and methods of payment are necessary but fluctuations in the rate of currency are more challenging for doing International business. There is a need to constantly monitor the rate of exchange which is most important strategy for all the business who wants to do business globally. Forecasting of profit becomes difficult, when the rates are fluctuating at unknown levels.
- **Political risks:** One of the most important risks for international business is uncertainity of politics. Countries and organizations that have opportunities to expand their business globally face more challenges than the ones who have already their markets established. Before thinking about expanding the business in new country needs to know about the risk of economic and political change.

Choice of Entry mode in International business: When a company wants to expand its business globally, the company needs to decide how to enter in the foreign market based on factors like size of business; effects of environmental factors, potential costs of market and risk taking ability. There are different ways of entering into new market which requires low to high commitment. The difference is due to aspects of control and risk. Different modes to enter into foreign market are:

- **Exporting Entry Modes:** One of the ways of entering into a new market is exporting. Exporting means sale of locally produced goods in foreign markets. Most of the manufacturing firm starts with exporting to extend their market. Exporting is the cheapest way to enter into foreign market. By using method of exporting, can save the financial problems because it saves the cost of manufacturing operations in foreign market. To decrease the cost of production, large volume of production can be done and some efficient methods of production can also be used to reduce the cost of production. The companies choose to serve foreign market by exporting their products.
- **Contractual Mode of Entry:** This is the mode where one organization creates some kind of agreement with another company of a different country to use their advantages. It is a stepping stone for international production. There is a lot of contractual arrangements by which any organization can enter into the market and remain there. It involves transfer of knowledge of International companies to local companies. Contractual entry modes include Licensing, franchising and joint ventures.
- **Licensing:** In this one organization (licensor) gives license to the other organization or the individual (licensee) the right to use the assets of its firm like the trademark, technology or its design for a specific period of time. The licensee has to pay a certain amount of fee as royalty on its profit to the licensor. Licensing doesn’t require any investment costs to bring their products in the market. Licensing helps in putting up the capital

required to introduce the new product in host country. It contains lower risk than other modes of entering into business.

- **Franchising:** It is as similar to the licensing. In this, the organization (franchisor) lets the other organization or individual (franchisee) the right to use the assets of the organization. The main difference between licensing and franchising is that in franchising, franchisor helps the franchisee in doing its tasks and helps in supporting the business of franchisee. Franchisee needs to follow the rules of the franchisor of doing business. It is used mostly by the service companies.
- **Joint Venture:** Joint venture is the form where two or more than two companies establish a new business where one company has the majority share. The best advantage of using joint venture as the mode of entry and the participating companies shares the risks and costs between them and it also helps in entering the market of host country as they have gained experience to do business in that particular country.
- **Investing Modes of Entry:** While entering into the new market, the organization has to establish a completely owned subsidiary means the company has the total of 100% share in the foreign company. The wholly owned subsidiary can be done in by Greenfield investments and acquisitions. This mode of entry into the foreign market has both advantages and disadvantages. With the wholly owned subsidiary, risks to lose the control over special competencies is reduces and it increases the control on operation of the country. It helps in the situation where any organization is starving for global strategy to expand business.
- **Greenfield Investment:** While establishing a business from the ground level, the biggest advantage to the company is that it can establish its business according to its own preferences. For this, the alternatives like cultural and organizational problems needs to be avoided. But these ventures are slow in establishing. The risk is also high in this kind of venture.
- **Acquisition:** It is the best way to match the competitor of foreign market and to establish its position in the foreign market. These are fast in implementing. To disturb the competitors, the firm needs to buy the particular organization before any other competing company buys it. This is less risky because the organization which is buying other company already knows its profits and revenues.

Conclusion

International Business is as a business activity which helps in extending the firm’s domestic business beyond the boundaries of other competing countries or the activity which is taking place across the national borders. It is the activity of purchase and sale of goods and services outside the country’s borders. In this, the firm finds opportunities to trade outside the borders of the country to expand its business. It is important for both the country and the organization. It helps the country to bring foreign exchange in the country. It also helps in development of the economy and increase in GDP. It increases the profits of an organization by selling the products in the countries where costs are high.

As per the notion of cultural aspect, international business includes transactions across the national and cultural borders for meeting the needs of individual customers and the other businesses. It helps in providing specialization to the country in producing the merchandise in best and optimum manner and also helps in creating employment opportunities to the countrys. It facilitates the organization to use their excessive production by doing exports and also helps in the development of an organization. Thus it can be said that international business is necessary for the point of view of both the company and the country for the development of economic growth of the country and increasing profits for the country.

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