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A SURVEY ON INTERNATIONAL BUSINESS

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ABSTRACT: International business encompasses all commercial activities that take place to promote the transfer of goods, services, resources, people, ideas, and technologies across national borders. International business occurs in many different forms, the movement of goods from one country to another (exporting, importing, trade), contractual agreements that allow foreign firms to use products, services, and processes from other nations (licensing, franchising), the formation and operations of sales, manufacturing, research and development, and distribution facilities in foreign markets.

1. INTRODUCTION

THE DEFINITION OF INTERNATIONAL BUSINESS

International business relates to any situation where the production or distribution of goods or services crosses country borders. Globalization—the shift toward a more interdependent and integrated global economy—creates greater opportunities for international business. Such globalization can take place in terms of markets, where trade barriers are falling and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries. Some managers consider the definition of international business to relate purely to “business.” However, a broader definition of international business may serve you better both personally and professionally in a world that has moved beyond simple industrial production.

International business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument). The entities involved in international business range from large multinational firms with thousands of employees doing business in many countries around the world to a small one-person company acting as an importer or exporter. This broader definition of international business also encompasses for-profit border-crossing transactions as well as transactions motivated by nonfinancial gains (e.g., triple bottom line, corporate social responsibility, and political favor) that affect a business’s future.

STRATEGIC MANAGEMENT AND ENTREPRENEURSHIP

A knowledge of both strategic management and entrepreneurship will enhance your understanding of international business.

STRATEGIC MANAGEMENT

Strategic management is the body of knowledge that answers questions about the development and implementation of good strategies and is mainly concerned with the determinants of firm performance. A strategy, in turn, is the central, integrated, and externally oriented concept of how an organization will achieve its performance objectives. One of the basic tools of strategy is a SWOT (strengths, weaknesses, opportunities, threats) assessment. The SWOT tool helps you take stock of an organization’s internal characteristics its strengths and weaknesses to formulate an action plan that builds on what it does well while overcoming or working around weaknesses. Similarly, the external part of SWOT the opportunities and threats helps you assess those environmental conditions that favor or threaten the organization’s strategy. Because strategic management is concerned with organizational performance be that social, environmental, or economic—your understanding of a company’s SWOT will help you better assess how international business factors should be accounted for in the firm’s strategy.

ENTREPRENEURSHIP

Entrepreneurship, in contrast, is defined as the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. An entrepreneur is a person who engages in entrepreneurship. Entrepreneurship, like strategic management, will help you to think about the opportunities available when you connect new ideas with new markets. For instance, given Google’s current global presence, it’s difficult to imagine that the company started out slightly more than a decade ago as the entrepreneurial venture of two college students. Google was founded by Larry Page and Sergey Brin, students at Stanford University. It was first incorporated as a privately held company on September 4, 1998. Increasingly, as the Google case study demonstrates, international businesses have an opportunity to create positive social, environmental, and economic values across borders. An entrepreneurial perspective will serve you well in this regard.

2. OVERALL PERSPECTIVE OF INTERNATIONAL BUSINESS

Worldwide developments

International business has brought the set of changes in the economic activities of almost every country in the world. One of the primary reasons is increase of foreign investment and trade. This trend has forced policy makers, managers, and entrepreneurs to refocus their efforts and look for new opportunities in the international markets. Today, every nation and increasing number of companies buys and sells products and services in the global marketplaces. In the last decade we have seen dramatic worldwide changes and developments which give the new dimensions to economic development in the political and business arena. Some of the major developments are:

1. The increased potential of a United States-Canada-Mexico free trade region through the North American Free Trade Agreement (NAFTA)
2. The emergence of the European Union with 27 member countries and around 480 million people.
3. Continental economic efforts to help rebuild Russia and the other countries of the former Soviet Union.
4. The continued economic power of Japan in the Pacific Rim and renewed progress of Chine.
5. Four Tigers of Hong Kong, Taiwan, South Korea, and Singapore 6. Southeast Asian countries of Malaysia, Thailand, Indonesia, and Vietnam.

This emerging internationalization has caused the rise of international investment and trade. The major investments have been done by industrialized countries. International trade has opened a new opportunity for local firms by making joint ventures with foreign firms. It allows local firms to sell goods and services in the domestic and foreign markets, and also it helps foreign firms to acquire an established market and accepted products and services.

Foundations for international business

Although more and more firms are going international, the most powerful and significant multinational corporations (MNCs) are headquartered in the United States, the European Union, and Japan (Hodgestts and Luthans, 1994). Examples stated by Hodgetts and Luthans include Motorola (United States), Royal Dutch /Shell (EU), and Toyota Motor (Japan). Managers from these corporations have a basic understanding of the foundation in international business.

Planning for international assignment gives some advantages comparing to those who go international without preparation. The benefits of preparing for working internationally may be viewed as follows: employee and employer can escape or minimize cultural shock by being aware of local language requirements and cultural issues; employee and employer must understand the task to be achieved; recognize own strengths and weaknesses (technical competences for example); get the family and organizational support for going international.

The primary objective of the corporations mentioned above is to develop a sustainable strategy, which can give them corporate advantage. In order to achieve corporate advantage, MNCs must create its strategy to satisfy the local needs. For example, recently the French company Lactalis bought the Croatian diary company Dukat. According to Lactalis' overall strategy, they are going to satisfy local milk suppliers by extending existing contracts, and even increase the prices of milk based on the quality.

3. THEORETICAL MODELS OF INTERNATIONALIZATION

(A) PROCESS MODELS

Traditional process/stage models consider internationalization as incremental and based on a risk-adverse and reluctant adjustment to changes in a firm or its environment (Johanson and Vahlne, 1997, 1990). Initially firms operate in the vicinity of their existing knowledge and supply only to domestic markets unless provoked, pushed, or pulled by events such as unsolicited export orders or adverse conditions in the home market. Once initiated, internationalization starts in markets with the lowest uncertainty and risk (i.e. firms start in 'psychically close' markets) and with an entry mode that requires relatively few resources (e.g. exporting). The speed and ability to accumulate knowledge through exposure to overseas markets then determines the subsequent pace of internationalization , as it positively feeds back to decisions to commit resources for future activities in foreign markets. So typically firms internationalize one market at a time and concentrate on a small number of key markets, adapting their existing goods and services to the needs of each new market (Bell et. al. 2003).

The process is seen as being reactive with little use for strategic choices when increasing exposure to overseas markets; indeed internationalization proceeds irrespective of whether strategic decisions are taken by management (Johanson and Vahlne, 1990) and this deterministic aspect of the model is an important (and often criticised) feature of the model (especially in the literature on 'bornglobal' firms – cf. Turnbull, 1987; Andersen, 1993; McDougall et. al. 1994; Bell, 1995; Oviatt and McDougall, 1997;

Leonidou and Katsikeas, 1997). In this traditional approach, the main goals of the firm are described as ensuring survival through increasing sales volume, greater market share, and/or extending product life cycles. In comparison, the 'born-global' literature (encompassing smaller firms that are early to internationalize) emphasized the formation of new ventures capable of competing in foreign markets almost from (or indeed at) inception, which was argued to be inconsistent with the process model (cf. Bell, 1995; Knight and Cavusgil, 1996; Madsen et. al., 2000; McDougall et. al., 1994; Moen, 2002; Moen and Servais, 2002; Oviatt and McDougall, 1997, 1999; Roberts and Senturia, 1996; Shrader et. al., 2000).

(B) OTHER BEHAVIOURAL FACTORS

A more eclectic set of influences on internationalization , that can be labeled as belonging to the class of behavioral models, includes the importance of networks, trust, and the use of inter-personal relationships (Turnbull and Valla, 1986; Lindqvist, 1997; Coviello and Munro, 1997; Dana et. al., 1999; Jones, 1999; Harris and Wheeler, 2005); the importance of individuals in the firm with prior exposure to international markets; and also the role of 'luck' (or serendipity) – cf. Crick and Spence (2005). Others emphasize the need to apply a cognitive perspective to the internationalization process and examine how entrepreneurs recognize and exploit opportunities in international markets (Zahra et. al. 2005).

Networks are expected to be more important to SMEs when they begin to internationalize, as the acquisition of experiential knowledge about overseas markets is crucial when selecting which markets to entry and/or expand into. Access to, and encounters with, potential partners and clients allow firms to familiarize themselves with the 'culture' of business in overseas markets, and to build up trust as relationships/joint activities are established (Wilson and Mummalaneni, 1990).

Crick and Spence (2005) found in their study of 12 high-tech UK SMEs that networks developed previously by the firms' owner/managers were important in determining the internationalization strategy of these firms. They also found that previous managerial experience of operating in international markets was crucial (and where this was not available, recruitment of an appropriate executive with the requisite contacts through networks took place). In short, the Crick and Spence study found that the main initial 'triggers' of an international strategy was (1) the availability and use of existing contacts, supporting the importance of networks; (2) the development and use of resources (especially managerial experience); and (3) serendipitous encounters, or 'luck'.

(C) TRANSACTION COST MODELS

Transaction cost models consider the choice of optimal market entry modes, when the decision to internationalise is taken as given. That is, the model does not deal with the decision of whether or not to engage in internationalisation per se, but rather transaction cost approaches concentrate on comparing the efficiency of particular modes of entry (e.g. Williamson, 1985; Teece, 1986) given that asset specificity, uncertainty and information asymmetries exist.

Mode of entry matters in particular to young high-tech firms (where asset specificity, uncertainty and information asymmetries between buyer and seller are especially pertinent), since if they are forced to internationalise to cover the fixed costs of initial development expenditures and generate enough income to cover ongoing development activities, the cost of entry is likely to be relatively high whichever course of action is taken. In principle, such firms may wish to internalise their overseas transactions and avoid intermediaries (either through direct exporting or setting up their own overseas production and/or distribution network), in order to avoid the fixed costs and uncertainties associated with operating untried technologies with the cooperation of third parties.

(D) MONOPOLISTIC ADVANTAGE AND THE RESOURCE-BASED APPROACH

This theory holds that a firm can generate higher "Ricardian" rents11 from the utilisation of firm specific assets which cannot be replicated by other firms. The thrust of these arguments are based on the established assumption (Hymer 1976) that despite the fact that local firms nearly always enjoy certain advantages over their foreign competitors (such as greater knowledge of the culture and a superior network of local business partners), firms that go international possess non-tangible productive assets (such as specialised know-how about production, superior management and marketing capabilities`, export contacts and coordinated, quality-orientated relationships with suppliers and customers) that they are able to exploit to give them a competitive advantage.

The resource-based and organisational capabilities approach to the firm (e.g., Barney, 1991; Kogut and Zander, 1996; Teece et. al. 1997) is concerned with how resources, skills and capabilities (i.e. tangible and non-tangible assets) are generated, accumulated and deployed. The literature in this area concentrates on the firm defined as bundles of various assets (Penrose, 1959) – essentially technology, capital and labour. Thus the emphasis is on internal characteristics, rather than the external environment (Barney, 1991), and therefore what a firm possesses determines what they can accomplish (Rumelt, 1984). But in addition to these tangible assets which operate through relatively clearly defined markets, there are intangible assets (Griliches, 1981), or firm-specific capabilities (Teece and Pisano, 1998; Pavitt, 1984) which largely define the dynamic capabilities that define the firm's competitive advantage.

4. THE ROLE OF GOVERNMENT IN BUSINESS INTERNATIONALIZATION

RISKS

Faulty Planning

To achieve success in penetrating a foreign market and remaining profitable, efforts must be directed towards the planning and execution of Phase I. The use of conventional SWOT analysis, market research, and cultural research, will give a firm appropriate tools to reduce risk of failure abroad. Risks that arise from poor planning include: large expenses in marketing, administration and product development (with no sales); disadvantages derived from local or federal laws of a foreign country, lack of popularity because of a saturated market, vandalism of physical property due to instability of country; etc. There are also cultural risks when entering a foreign market. Lack of research and understanding of local customs can lead to alienation of locals and brand dissociation. Strategic risks can be defined as the uncertainties and untapped opportunities embedded in your strategic intent and how well they are executed. As such, they are key matters for the board and impinge on the whole business, rather than just an isolated unit.

Operational risk

A company has to be conscious about the production costs to not waste time and money. If the expenditures and costs are controlled, it will create an efficient production and help the internationalization. Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies; employee errors, systems failure, fraud or other criminal activity, or any event that disrupts business processes.

Political risk

How a government governs a country (governance) can affect the operations of a firm. The government might be corrupt, hostile, or totalitarian; and may have a negative image around the globe. A firm's reputation can change if it operates in a country controlled by that type of government. Also, an unstable political situation can be a risk for multinational firms. Elections or any unexpected political event can change a country's situation and put a firm in an awkward position. Political risks are the likelihood that political forces will cause drastic changes in a country's business environment that hurt the profit and other goals of a business enterprise. Political risk tends to be greater in countries experiencing social unrest. When political risk is high, there is a high probability that a change will occur in the country's political environment that will endanger foreign firms there. Corrupt foreign governments may also take over the company without warning, as seen in Venezuela.

Technological risk

Technological improvements bring many benefits, but some disadvantages as well. Some of these risks include "lack of security in electronic transactions, the cost of developing new technology ... the fact that this new technology may fail, and, when all of these are coupled with the outdated existing technology, [the fact that] the result may create a dangerous effect in doing business in the international arena."

Environmental risk

Companies that establish a subsidiary or factory abroad need to be conscious about the externalizations they will produce, as some may have negative effects such as noise or pollution. This may cause aggravation to the people living there, which in turn can lead to a conflict. People want to live in a clean and quiet environment, without pollution or unnecessary noise. If a conflict arises, this may lead to a negative change in customer's perception of the company. Actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of an organization's activities is considered to be risks of the environment. As new business leaders come to fruition in their careers, it will be increasingly important to curb business activities and externalizations that may hurt the environment.

Economic risk

These are the economic risks explained by Professor Okolo: "This comes from the inability of a country to meet its financial obligations. The changing of foreign-investment or/and domestic fiscal or monetary policies. The effect of exchange-rate and interest rate make it difficult to conduct international business."Moreover, it can be a risk for a company to operate in a country and they may experience an unexpected economic crisis after establishing the subsidiary. Economic risks is the likelihood that economic management will cause drastic changes in a country's business environment that hurt the profit and other goals of a business enterprise. In practice, the biggest problem arising from economic mismanagement has been inflation. Historically many governments have expanded their domestic money supplying misguided attempts to stimulate economic activity.

Financial risk

According to Professor Okolo: "This area is affected by the currency exchange rate, government flexibility in allowing the firms to repatriate profits or funds outside the country. The devaluation and inflation will also affect the firm's ability to operate at an efficient capacity and still be stable."Furthermore, the taxes that a company has to pay might be advantageous or not. It might be higher or lower in the host countries. Then "the risk that a government will indiscriminately change the laws, regulations, or contracts governing an investment—or will fail to enforce them—in a way that reduces an investor's financial returns is what we call 'policy risk.'"

Terrorism

Terrorism is a voluntary act of violence towards a group(s) of people. In most cases, acts of terrorism is derived from hatred of religious, political and cultural beliefs. An example was the infamous 9/11 attacks, labeled as terrorism due to the massive damages inflicted on American society and the global economy stemming from the animosity towards Western culture by some radical Islamic groups. Terrorism not only affects civilians, but it also damages corporations and other businesses. These effects may include: physical vandalism or destruction of property, sales declining due to frightened consumers and governments issuing public safety restrictions. Firms engaging in international business will find it difficult to operate in a country that has an uncertain assurance of safety from these attacks.

Bribery

Bribery is the act of receiving or soliciting of any items or services of value to influence the actions of a party with public or legal obligations. This is considered to an unethical form of practicing business and can have legal repercussions. Firm that want to operate legally should instruct employees to not involve themselves or the company in such activities. Companies should avoid doing business in countries where unstable forms of government exist as it could bring unfair advantages against domestic business and/or harm the social fabric of the citizens.

TYPES OF OPERATIONS

EXPORTS AND IMPORT

Merchandise exports: goods exported not including services.

Merchandise imports: The physical good or product that is imported into the respective country. Countries import products or goods that their country lacks in. An example of this is that Colombia must import cars since there is no Colombian car company.

Service exports: As of 2018, the fastest growing export sector. The majority of the companies create a product that requires installation, repairs, and troubleshooting, Service exports is simply a resident of one country providing a service to another country. A cloud software platform used by people or companies outside the home country."Tourism and transportation, service performance, asset use". Exports and Imports of products, goods or services are usually a country's most important international economic transactions.

Top imports and exports in the world

Partner Name	Export (US$ Thousand)	Import (US$ Thousand)	Import Partner Share (%)	Export Partner Share (%)
World	14,639,041,733.88	14,748,663,389.75	100.00	100.00
United States	1,456,000,000	1,292,436,125.64	8.76	13.29
Japan	634,900,000	661,678,484.03	4.49	3.20
Germany	1,322,000,000	1,145,973,941.19	7.77	6.26
France	507,000,000	488,825,071.86	3.31	3.68
United Kingdom	407,300,000	359,480,074.29	2.44	4.17

5. CONCLUSION

International business consists of devised transactions in advance which are implemented through national borders. Any company that performs any exchange of goods, services or international transactions outside their country is a participant in the international market directly or indirectly.

International business is realized within the process of globalization of business which actually means increasing international integration and manufacturing processes and international market for goods and services. Globalization refers to growth of global connectivity, integration and interdependence of economic, social, technological, cultural, political and environmental spheres

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