

Analyzing the international business environment and identifying key factors for international business operations

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What is International Business

- All commercial transactions between two or more countries
 - Private
 - Public
- International business adds significant influences to typical domestic operations
 - Physical
 - Societal
 - Competitive

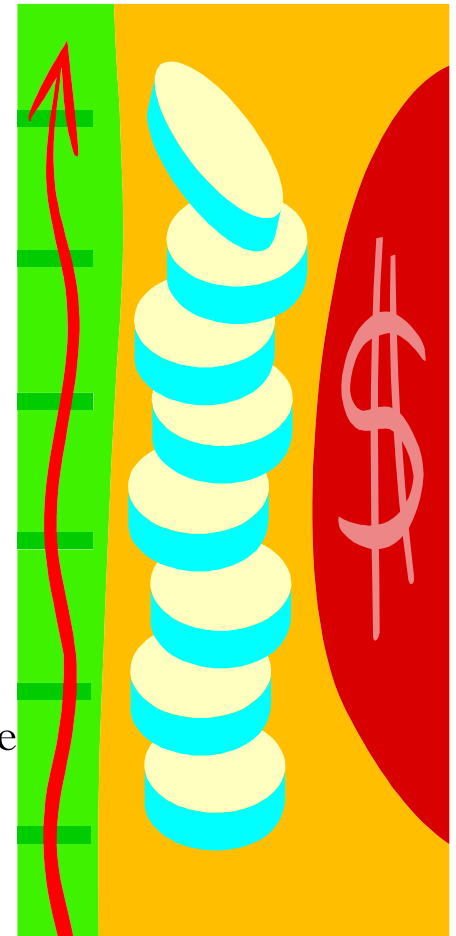
Management in International Business

- In addition to domestic business management skills, international business management requires
 - Social science understanding
 - Political science appreciation
 - Legal awareness
 - And an innate ability in:
 - Anthropology
 - Sociology
 - Psychology
 - Economics
 - Geography



Why Engage in International Business

- Expand sales
 - Volkswagen (Germany)
 - Ericsson (Sweden)
 - IBM (United States)
- Acquire resources
 - Better components, services, products
 - Foreign capital
 - Technologies
 - information
- Minimize risk
 - Take advantage of the business cycle for products/service
 - Diversify among international markets



Reasons for Growth in International Business

- Rapid increase in and expansion of technology
- Transportation is quicker while costs are lower
- Communication enables control from afar
- Liberal government policies on trade and resources
- Development of institutions that support international trade
- Consumer pressures
- Increased global competition

The Global Business Environment

- The Global Marketplace is complex, interdependent, and dynamic
- Challenges include politics, culture, and technology
- Managers must find a balance between social responsibility, company image, and competitive strategies
- More focused on Global Management

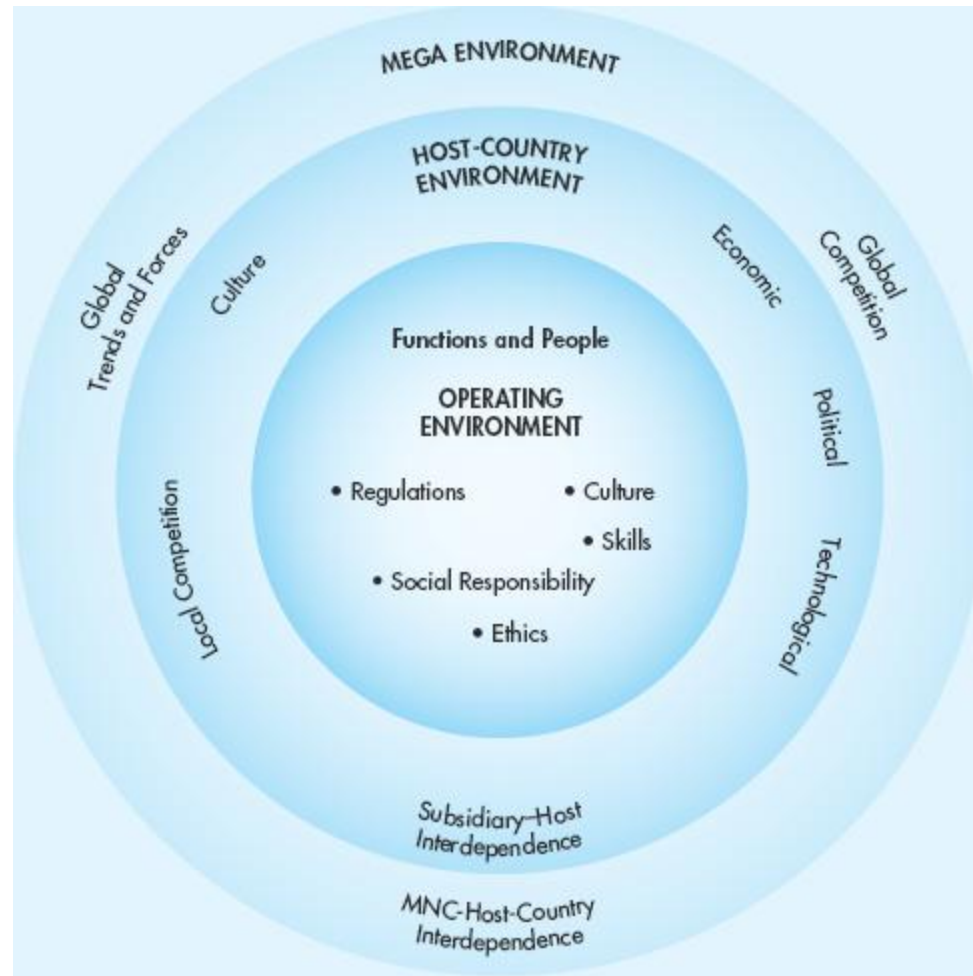
The Global Business Environment

- Global competition is characterized by networks that bind countries to one another
- Globalism trends
 - A borderless world
 - Increase in exports
 - Increase in direct foreign investment
 - Dominance of trading blocs

Information Technology

- Information Technology is transforming the international manager's agenda more than any other item
- Information is no longer centrally or secretly controlled by governments
- Information technology is boosting productivity and electronic commerce around the world

The Global Manager's Role



Analyzing the international business environment and identifying key factors for international business operations

Element 1

Examine patterns of international trade.

Performance criteria

- Global trade patterns are assessed and multinational markets are identified in terms of location, ownership, products and companies involved.
- The terms Free Trade and Protectionism are defined and international markets that operate under these respective trade structures are identified.
- International trade agreements that involve a country are examined, trading partners are identified and access arrangements for these markets, including CER, GATT, and WTO are evaluated.
- International trade policies that impact upon a country's trade are examined and trading partners, including EU, NAFTA, and ASEAN etc. are identified.

Element 2

Identify economic and political factors that impact upon international business opportunities.

Performance criteria

- Risk factors are identified and international business opportunities are ranked against risk factors.
- Range: political stability, financial stability, legal and regulatory requirements, cultural factors, trade barriers, corruption risks.
- Risk factors are related to international business cycles in terms of economic conditions of prosperity, recession, depression, recovery, and business cycle stages are identified for proposed international markets.
- Operational factors are identified and international business opportunities are ranked against operational factors.
- Range: ownership structures, employment and work practices, technology resources, distribution infra-structures, resource availability, income distribution.

Element 3

Assess social and cultural factors for international business operations.

Performance criteria

- Social characteristics of international markets are analysed in terms of reference groups, family roles and status, social values, and these characteristics are assessed for their impact upon business operations.
- Cultural characteristics of international markets are analysed in terms of cultural traditions, preferences and behaviours, and these characteristics are assessed for their impact upon business operations.

Element 4

Recognise international business issues for developing countries.

Performance criteria

- Economic development, transportation and communication systems of developing countries are assessed for their capability to service international business opportunities.
- Political, cultural, legal and regulatory factors in developing countries are assessed and their impact upon international business operations is estimated.
- Resource availability, resource sustainability and resource management implications are identified for international business operations in developing countries.
- The level of technology required to service international business activities in developing countries is assessed for international business opportunities.
- The impact of international business operations on the social and cultural environment of developing countries is assessed for international business opportunities.
- Sources of comparative and competitive advantage of developing countries are assessed for international business opportunities.

Element 5

Identify international business involvement options for a country's organisations.

Performance criteria

- International business involvement levels are identified and the features of each level are compared and evaluated for international business opportunities.
- Range: exporting, licensing, joint venture, strategic alliances, direct investment.
- The role of the country's Government in assisting a country's organisations to participate in international business activities is identified, and the functions of the Ministry of Foreign Affairs and Trade and Ministry of Commerce are analysed in relation to identifying and supporting international business activities.
- Range: political activities, trade relations, international business services, national business services.

Economic Factors

- Size and growth rate of GDP
- Foreign exchange rate fluctuations
- Size of market for your product
- Level of disposable income (available for spending)
- Propensity of people to spend (change in spending divided by change in disposable income)
- Interest and inflation rates
- Unemployment rates
- Fiscal and monetary policies

Economic Risk

- A country's level of economic development generally determines its economic stability
- Economic risk falls into 2 categories
 - Government changes its fiscal policies
 - Government modifies its foreign-investment policies
- Managers are constantly reassessing economic risk

Political Factors

- Form and stability of government
- Attitude toward private investment by government, customers, and competition
- Degree of anti-foreign discrimination
- Amount of red tape
- Amount of corruption
- Deregulation and/or regulation

The Political and Economic Environment

- One important aspect is the phenomenon of ethnicity
 - Driving force behind political instability
- Firms must assess political risks
 - Government actions that could adversely affect the long-run profitability or value of a firm

Political Risk – 7 Typical risk events

- Expropriation of corporate assets without prompt and adequate compensation
- Forced sale of equity to host-country nationals, usually at or below depreciated book value
- Discriminatory treatment against foreign firms in the application of regulations or laws
- Barriers to repatriation of funds (profits or equity)

Political Risk – 7 Typical risk events

- Loss of technology or other intellectual property (such as patents, trademarks, or trade names)
- Interference in managerial decision making
- Dishonesty by government officials, including canceling or altering contractual agreements, extortion demands, and so forth

Managing Political Risk

- Avoidance – either the avoidance or withdrawal of investment in a particular country
- Adaptation – adjust to the political environment
- Dependency – keeping the host nation dependent on the parent corporation
- Hedging – minimizing the losses associated with political risk events

The Legal Environment

- Manager's will comply with the host country's legal system
 - Common Law – past court decisions act as precedents to the interpretation of the law
 - Civil Law – comprehensive set of laws organized into codes, interpretation is based on reference to codes and statutes
 - Muslim law – based on religious beliefs, it dominates all aspects of life

- The global legal environment refers to the legal environment in international business. The legal environment regulates the operations of firms in international markets. It is sufficient for a firm operating at the domestic level to stick to regulations of the land, but organizations operating in different countries need to know and comply with the laws of the domestic country as well as all the host countries they operate in.

- Governments impose laws to protect the home industry from cut-throat global competition. They impose different kinds of tariffs, enter into agreements and sign treaties to protect indigenous industry and promote local trade. When governments feel that the home industry is affected because of dumping, under Article VI of GATT, they can impose heavy anti-dumping duties. To protect domestic industry, they can also impose non-tariff barriers and frame regulations on foreign investments.

- In international business, disputes and litigation are common. To resolve differences between countries, all member nations of the WTO have established a Dispute Settlement Body. It is the final authority and passes rulings and frames regulations on disputes between/among member countries. WTO members have entered in to agreements and established committees to regulate and govern international trade in information technology products. Laws have also been framed to regulate and bring uniformity to the interpretation of transportation rules among countries.

The Technological Environment

- Corporations must consider the accelerating macro-environmental phenomenon of technoglobalism (rapid developments in information and communication technologies)
- Corporations must consider the appropriability of technology

Global E-Business

- E-business — the integration of systems, processes, organizations, value chains and entire markets using Internet-based and related technologies and concepts.
- E-commerce - refers directly to the marketing and sales process via the Internet

Geographic Factors

- Availability and efficiency of transport
- Proximity of site toward markets
- Availability of local raw materials
- Availability of power, water, gas
- Availability of suppliers and services

Labor Factors

- Availability and costs of managers and workers
- Degree of skill and discipline at all levels
- Presence and strength of unions
- Literacy and trainability of workers
- Degree of labor mobility

Tax Factors

- Amount of taxes and tax rate trends
- Tax treaties
- Amount of tax evasion
- Duty when goods are exported
- Availability of tariff protection

Capital Factors

- Cost of local borrowing
- Local availability of convertible currencies
- Modern banking systems
- Government credit aid to new businesses
- Venture capital industry
- Regulation of banking industry

Business Factors

- State of marketing and distribution system
- Normal profit margin in the industry
- Competitive situation
- Quality of life for expatriates

Social Factors

- Education of consumers
- Age of population, life expectancy
- Number of divorces, births, deaths
- Immigration and emigration rates
- Influence of minorities
- Changes in life styles

Institutional Voids

- Political and social system
- Openness
- Product markets
- Labor markets
- Capital markets

Political and Social System Voids

- Degree of government interference
- Protection of private property rights
- Quality of bureaucrats
- Independence of judiciary
- Religious or ethnic tensions
- Independence of media
- Corruption and organized crime

Openness

- Receptive to foreign investment
- Amount of government restrictions
- Length of time to start a new venture
- Amount of tariffs
- Choice of location in the country
- Free trade agreements
- Difficulty in getting work permits

Product Market Voids

- Availability of market research
- Data on quality of goods and services
- Quality and number of suppliers
- Logistics and transportation infrastructure
- Size and number of retail stores
- Types of distribution channels
- Collection of receivables

Labor Market Voids

- Education infrastructure
- Language of business
- Mobility of workers
- Compensation plans
- Employment contracts
- Foreign managers
- Trade unions

Capital Market Voids

- Strength of banks
- Transparency of financial institutions
- Existence of venture capital industry
- Accounting standards and accuracy of statements
- Independence of corporate boards
- Bankruptcy process

Global E-Business

- Convenience in conducting business worldwide; facilitating communication across borders contributes to the shift toward globalization and a global market.
- An electronic meeting and trading place, which adds efficiency in conducting business sales.
- A corporate Intranet service, merging internal and external information for enterprises worldwide.
- Power to consumers as they gain access to limitless options and price differentials.
- A link and efficiency in distribution.