



International Business Management

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Course Contents

	Pages
COURSE INTRODUCTION	5
Block 1 INTRODUCTION TO INTERNATIONAL BUSINESS	7
Unit 1 Dynamics of International Business	11
Unit 2 Globalization and Evolving Paradigm	28
Unit 3 International Business Environment : An Overview	46
Block 2 INTERNATIONAL TRADE	67
Unit 4 Trade Theories	71
Unit 5 WTO Agreements	83
Unit 6 Regional Trade Blocs	100
Block 3 STRATEGIES OF INTERNATIONAL BUSINESS	115
Unit 7 International Entry Strategies	119
Unit 8 Organizational Structures	134
Unit 9 Strategic Alliances	147
Block 4 INTERNATIONAL BUSINESS FUNCTIONS	163
Unit 10 International Marketing	167
Unit 11 International Finance	184
Unit 12 International Operations & Logistics Management	203
Unit 13 International Human Resource Management	221

MMPC-016 INTERNATIONAL BUSINESS MANAGEMENT

There has been an increasing trend towards internationalization of business, geographic expansion and multinational operations. People, products and services are moving across national borders in unprecedented numbers. Many firms in various countries, developed and developing, including our own, are expanding exports, creating franchising arrangements, entering into joint ventures with foreign companies, and establishing foreign subsidiaries.

Though the basics of managing a business, domestic or international, remain the same, the decisions-making environment surrounding the international companies is usually more complex and this has a tremendous bearing on the decisions-making process. For example, exchange rate fluctuations, the varied and unfamiliar political, legal and cultural environment of different countries put far too greater burden on the international manager than the purely domestic manager.

International business involves more complexities, more risks and uncertainty as the operations extend beyond a single national boundary. MNCs have to be flexible in adapting to different legal, political, and economic systems, and conditions. MNCs utilise diverse human resources-people with different languages, values and cultures. Often they are in head-to-head competition with other MNCs which might also be attempting to develop global markets.

MNCs have to address themselves to several organization and management related questions, for instance; (i) what structure would be the most appropriate for global strategies and for allocating resources efficiently on a world-wide basis? (ii) How can different product lines be produced, promoted and distributed most efficiently throughout the world? (iii) How much autonomy should be given to individual geographical operations located in various countries?

Multinational firms have to operate in different cultures that have different ways of conducting business and varying norms for managerial behavior. It is important for MNCs to develop a kind of cultural sensitivity to recognize and respect other cultures, values and norms. Many MNCs provide comprehensive education and training, including socialisation, to personnel who have to work in foreign countries.

International managers must strike a delicate balance between uniform policies, practices and patterns of management that apply across the organization (that is, standardisation of managerial policies and practices) and the need to conform to specific conditions of each country and culture.



Block-1

Introduction to International Business

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BLOCK 1 INTRODUCTION TO INTERNATIONAL BUSINESS

This block deals with the basic concepts of international business, role of international business in world economy and globalization of business. Finally it discusses the international business environment focusing on the dynamics of political, economic social, technological, environmental and legal issues that are crucial to international business.

This block has following **three** units.

Unit 1 : Dynamics of International Business

Unit 2 : Globalization and Evolving Paradigm

Unit 3 : International Business Environment: An Overview



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UNIT 1 DYNAMICS OF INTERNATIONAL BUSINESS

Objectives

After reading this unit you should be able to:

- trace the origin of international trade;
- explain the concept and dynamism of international business;
- understand the reasons behind firms going international; and
- appreciate the benefits and importance of international business.

Structure

- 1.1 Introduction
- 1.2 Domestic vs International Business
- 1.3 Importance of International Business
- 1.4 Benefits of International Business
- 1.5 Challenges in International Business
- 1.6 Why do Firms go International?
- 1.7 Summary
- 1.8 Key Words
- 1.9 Self-Assessment Questions
- 1.10 References/Further Readings

1.1 INTRODUCTION

International business as a discipline is of a recent origin. It is hard to imagine a world without international business. Virtually every nation, howsoever small it may be, has firms involved in various types of international business activities. It is through these activities that nations enjoy the benefits of international business by trading in a variety of goods and services produced around the world and made available locally. International business, conventionally called as international trade, has been known to exist ever since man learned to live in an organized manner. India, for instance, is well known for spices. Egyptians had a significant foreign trade. The fundamental basis of international trade lies in the fact that countries are endowed by nature with different resources. These differences arise from geographical, physical or climatic features. Some countries have a monopoly of certain crops, for example, Bengal (India) and have high jute production, and Punjab (Pakistan) produces best quality of basmati rice. International business is thus inevitable when there are marked differences in the countries regarding material, natural vegetation, climate, soils and other physical and geographical conditions. It is also affected by several other factors besides natural and geographical factors, such as stage of economic development, accumulation of capital by a nation and its foreign investments, technological progress, trade and financial

regulations, political affiliations, education and special skills of the population (for example, software skills of India), and so on.

Though international business, as a discipline, as stated earlier, is of a recent origin, international trade is claimed to be as old as the history of mankind itself (Monye, 1993). Even at the most tribal level, communities found it in their interest to trade, albeit in a very primitive manner and involving the exchange of simple objects mostly for immediate consumption (Harrison, Dalkiran, and Elsey, 2000, 3-4). Historically trade was in the form of barter and was undertaken both for social as well as economic reasons.

Even though modern trade is conducted in far more advanced forms and for more complex reasons than ever before, the basic human need for trade remains the same. However, unlike ancient times during which trade was devised and undertaken by communities for the benefit of communities themselves, over 90 per cent of modern trade is undertaken by private firms in pursuit of their own aims and objectives (Harrison et al., 2000).

The growth of modern trade coincided, to a large extent, with the emergence of the modern nation state and with the consequent formation of national borders. The clear recognition and appreciation of the mutual benefits of free trade (trade without barriers and based on the principle of comparative advantage) provided sufficient incentives for nation states to seek greater opportunities in each others' domestic markets and thus to increase the volume of trade among themselves. Such mutual benefits have been largely responsible for the growth of alliances and regional integration around the world, as evidenced by the establishment of a considerable number of trading areas, such as the European Union (EU) and North American Free Trade Agreement (NAFTA). Over the years, nations have been promoting trade and international business activities by attempting to create suitable business and investment environments within their borders, not only out of political and strategic necessity but also out of a desire to attract business and foreign investment, often in competition with other nations. For example, the spate of liberalization, deregulation, and privatization programmes by governments around the world, in particular by those of the former Soviet republics and Eastern Europe, has given special impetus to the growth of foreign direct investment (FDI).

Many countries around the world have witnessed substantial growth in the economy in the past two decades. There has been faster growth in the international transactions especially in the form of FDIs (Prathi, 2011). Not only has the total stock of capital grown rapidly, but more significantly, there has been growth in the number of subsidiaries of Multi National Companies (MNCs). There has also been growth in the number of countries in which specific firms were active.

As both, international trade and investment grew rapidly, international competition became more intense, and many national industries became global industries. Similarity of markets in different countries and intense global competition drove international competitors to coordinate their marketing and competitive strategies between countries more actively. The relevant scope of strategy thus shifted from discrete national markets to global markets. The coordination of worldwide competitive actions among the various subsidiaries of MNCs became more important.

The removal of trade barriers, especially in the last decade of the previous millennium and the growing similarity of the national markets created the potential for globalization of markets and competition. The development of global networks brought about by MNCs and alliances between independent firms on the one hand and the technology of cheap, effective transportation and global communication networks on the other hand provided the practical means necessary for the integration of supply. These conditions were necessary, though not sufficient. Intense competition in most industries was the driving force necessary for integration and globalization.

Globalization is a process by which a business looks at the world market as one single market without the barriers of social, cultural, economic, political or commercial factors which separate different country markets. For example, India and USA can be different in terms of economic factors such as the per capita income and purchasing power of the consumers, the stage of economic development, etc. Since these barriers are less effective in a global scenario, it leads to the increased movement of goods and services across boundaries, namely, trade and investment, often of people through migration. We shall learn more about globalization in Unit 3 of Block.

1.2 DOMESTIC VS INTERNATIONAL BUSINESS

The basic principles of business concerning tasks, functions, and processes that apply to international business are the same as that of domestic business. However, the environment in which domestic and international firms operate varies considerably and therefore requires an international firm to modify and adapt its business practices country by country. Unlike a domestic business manager, an international manager faces greater difficulties, greater uncertainties, and more importantly, much greater risks. The tasks of an international business executive are clearly much more challenging.

These difficulties, uncertainties, and risks originate from differences in the political, economic, legal and cultural environment, and from differences in foreign exchange markets and exchange rate systems. In most cases, these problems manifest themselves as constraints which render the process of decision-making and its implementation in international business more difficult (and in some cases, more hazardous) than in domestic business. More importantly, culturally insensitive decisions often result in conflicts which are more difficult (and costly) to resolve without seriously affecting the performance of the firm, its future operations, and the effectiveness of its management. The dynamic nature of constant changes in business, economic, political, and legal environments in the host country adds still more difficulties with which the international business executive must deal on an almost daily basis.

The differentiation between domestic and international business can broadly be done on the following parameters:

Culture

Each country in which the firm operates is culturally different. To be successful, the firm must operate in a culturally sensitive manner and within the constraints of the culturally determined manners, customs, values, and norms of the host country. An international business manager must respect and empathize with cultural differences in all aspects of business and social life, seek to conform and cooperate rather than confront or behave

as if operating in his/her own culture. Nike, the global sports shoe manufacturer, realized this fact in a hard way when it produced and marketed Nike Air brand of shoes for the first time. It wrote “Air” in cursive fonts and in an artistic way but it created a great problem in Saudi Arabia because it looked like the word ‘Allah’ in Persian. Similarly, marketing campaigns, especially the advertising may have to be adapted according to the local culture. Many years ago, campaign for ‘Tuff’ shoes which had shown male and female models wearing only shoes and no clothes had come under scanner. It was considered as obscene and was subsequently banned in India. However a similar campaign in some other country like France may not have evoked public outcry and might have been considered normal like any other campaign.

Fiscal and Government Policies

Conducting business across national borders involves the use of different currencies and observing different government rules and regulations limiting the firm’s freedom of action; for example, restrictions on the amount of profit to be transferred. Different governments practice different exchange rate policies and systems, ranging from daily decrees about the value of the local currency in terms of the world’s major currencies to fixed and floating exchange rate systems. These practices add greater risk and uncertainty to the already highly risky and uncertain nature of international financial transactions. To be successful, the firm must develop an appropriate strategy to deal with these differences and the associated problems.

Legal Environment

The legal environment differs from country to country, requiring firms to show particular sensitivity to laws, rules, and regulations which may affect operations and performance. Disregarding or disobeying the laws of the host country can be very damaging to the finances and the image of the firm. Laws pertaining to joint ownership of assets, for example, are often very complicated, bureaucratic, frustrating, and time-consuming. Legal difficulties are often the source of serious disputes between the host government and the firm, requiring protracted negotiations which may end in failure to invest or to continue the existing business.

Consumer Tastes and Preferences

Differences in consumer tastes and preferences and demand patterns arising from cultural differences require the firm to adopt appropriate production, procurement, and marketing strategies to minimize costs and maintain the firm’s value. McDonald’s, for example, does not offer beef and pork items in India and sells only vegetarian food dishes in predominantly vegetarian state of Gujarat. Even in the case of standard global products, certain modifications may be necessary to render the product more acceptable to the consumer in the host culture. For example, the name of the product in the host country’s language may be offensive or the packaging may be inappropriate.

Availability of Factors of Production

Different countries possess different factor endowments with different qualities, requiring the firm to formulate and implement suitable product development and logistics strategies consistent with the availability and quality of resources in the host country. Certain skills or supplies may be either unavailable or available in limited quantities and qualities. If unavailable, the firm must either import them or develop local sources of supply.

Following its entry into the Soviet market in 1990, McDonald's, one of the first Western fast food firms, experienced serious difficulties in obtaining high-quality local food supplies consistent with its food technology. To meet its high standards in quality, delivery, and production methods, McDonald's had to transfer agricultural technology, equipment, and consultants from other countries with superior technology to work with Soviet farmers. One astonishing outcome was an increase of 100 per cent in potato output alone. It even setup its own dairy farms, cattle farms, food-processing plants, and distribution system.

Thus, international business should not be seen just as an extension of domestic business. It is quite different from the domestic business. The factors which lead to these differences are summarized in Table 1.1.

Table 1.1: Differences between International Business and Domestic Business

International Business	Domestic Business
i. Many nations, many cultures.	i. One nation, one culture.
ii. Patriotism hinders trade.	ii. Patriotism helps trade.
iii. Markets are diverse and fragmented.	iii. Market is much more homogeneous.
iv. Multiple currencies, differing instability and exchange value.	iv. Single currency
v. Varied economic (monetary and fiscal) climate.	v. Uniform economic (monetary and fiscal) climate.
vi. Political factors may play major role.	vi. Political factors are of minor importance.
vii. Government influences business decisions.	vii. Minimum Government interference in business decisions.
viii. Transport cost influences marketing decisions to a great extent.	viii. Transport cost forms/influences only to a small extent.
ix. Considerable risks, both financial and non-financial, necessitate credit and general insurance.	ix. Minimum payment and credit risk.

1.3 IMPORTANCE OF INTERNATIONAL BUSINESS

In recent years, international business has acquired additional importance for host countries in particular and world economies in general as a result of developments in the following areas:

Technology Diffusion

Technological developments are transmitted to every corner of the earth through the practice of international business. This transmission is not only in the form of products and services used every day, but also in the form of modern management, production, marketing, and logistics systems employed by domestic as well as international firms.

And thanks to the dramatic developments in communication and information technology, the benefits of such transmissions are shared worldwide.

Stimulation to Competition

Except in the case of entry through acquisition, the arrival of an international firm in the host country, either in partnership with a local firm or on its own, may stimulate domestic competition and lead to increased entrepreneurial challenges, especially in the developing countries. International firms with superior worldwide experience, knowledge, technology, and other relevant resources have the ability to offer goods and services often at lower prices and higher quality.

Higher Standard of Living

Availability of a wide range of goods of international quality at competitive prices has brought many so called “luxury” products within the reach of common man, especially in developing countries. Thanks to international business, the standard of living in many developing countries has increased significantly.

Impetus for Standardization

Standardization refers to the adoption of norms and practices generally acceptable in world markets. In some cases, one standard product may be sold throughout the world using similar selling techniques. Common standards enable easier and more effective comparisons to be made by consumers and other interested parties, e.g., health and safety authorities. The product standardization has become an easier option due to diminishing differences in consumer tastes, preferences, and interests. This is due to advances in technology, telecommunication, transport, and advertising.

Adapting to International Environment

A business firm operates within its internal and external environment. The internal environment is one over which the firm has considerable control: the firm determines its own internal environmental factors by specifying its corporate mission, organizational structure, recruitment policy, and its relationship with suppliers, etc. The external environment is one over which the firm has little or no control. Whatever little control the firm may have is usually the consequence of its market power or collective action by a representative body, such as the Confederation of British Industries (CBI) in Britain or the Confederation of Indian Industries (CII) in India. The firm must, therefore, conform to its external environmental factors, whether they may be national, international, or global, or suffer the consequences of its failure to do so. For example, changes in health and safety regulations, trade policies, and the legal environment are unavoidable. Nike, one of the world’s biggest manufacturers of sports and leisure wear, was forced into cancelling its licensing agreement with one of its Asian licensees suspected of employing child labour (Harrison, et al., 2000 p.9).

With the increasing internationalization of business activities, the methods of dealing with internal and external environmental factors tend to become more standardized. The main reason for this development is that domestic firms aspiring to expand internationally often emulate existing international firms in adapting to environmental changes. In other words, international business acts as an instrument for domestic firms to adopt more effective business policies and techniques as a preparation for going international. For example, many US and European firms have adopted Japanese management techniques, such as quality circles, the just-in-time system (JIT), and total

quality management (TQM) in order to remain competitive in their own domestic markets in general and in international market in particular.

Encouragement to Global Business and Economic Reforms

Governments play an important role in the development and promotion of international business activities. They provide a great variety of financial and non-financial incentives to attract FDI into their countries, often in competition with their neighbours. The increasing scale of liberalization of trade and investment, deregulation of domestic industries, and privatization of state-owned enterprises has the attraction of foreign business as one of its primary objectives. These measures have created immense international business opportunities. The major impact of international business in this context has been the encouragement to governments to open up their borders to international trade and investment, standardize their systems and procedures, adopt internationally acceptable values and attitudes, particularly with respect to human rights and child labour, and encourage the development of democratic institutions.

Economic Cooperation and Integration

One of the most fundamental impacts of the process of internationalization since the end of World War II has been the progressive ending of the isolation of national economies. Gradually more and more barriers to international trade and investment are being replaced with measures designed to enhance cooperation and coordination among nation states. The need to cooperate and coordinate over wider geographical areas has led to the formation of regional groupings in the form of free trade areas resulting in rapid increase in the growth of international business activities.

Activity 1

Pick up one multinational firm from the US and one from Japan and study with respect to the following:

- a) Their organization structures;
- b) The way they plan their activities; and
- c) The way they make their marketing decisions like new product introductions, branding and advertising, pricing, etc.

Note down the differences you find in the working of the multinationals from the two countries.

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1.4 BENEFITS OF INTERNATIONAL BUSINESS

Foreign trade gives rise to several advantages, some of which are as follows:

Mutual Exchange: As seen earlier, the countries in foreign trade stand to gain by exchange of goods and services.

Higher Standard of Living: Because of mutual exchange of products, the citizens of trading countries can enjoy the goods and services which are not available or cannot be produced in their own country. For example, in the absence of international trade, the people staying in Arabian Gulf would have lived a miserable life for want of many essential items like foodstuff, clothing, etc. But thanks to the international trade, they can sell oil and in return buy whatever they need. This has helped them to improve their standard of living.

Stabilization of Prices: Prices, it is said, are a function of demand and supply. Naturally, during the time of natural calamities like flood, famine, etc. the supply of food grain will be affected. Thus, when a country cannot grow sufficient amount of food-grain required for its domestic consumption, they have to be imported to maintain adequate supply and prices. The same principle holds good when there is a surplus of production. The excess production may be exported to maintain prices in the domestic market.

Specialization: As seen earlier, a country tends to export such products in which it has comparative or absolute advantage, for example, India in Rice or Gulf countries in oil. When a country keeps on exporting the same product over a number of years, it leads to specialization.

Increased Productivity: Because of the geographical specialization and expertise attained, the country can produce more goods and better quality of goods and services which, in turn, leads to higher productivity. The excess capacity, if any, of industrial products can be utilized fully. This will lead to economies of large scale production. The shining example is of Japanese car manufacturers.

Wider Markets: Many firms are attracted towards the international market for the growing opportunities for their products in other countries. This may be because of the saturation in the domestic market or because the foreign market may be more profitable.

Economic Development: Due to foreign trade developing countries like India can earn valuable foreign exchange through exports. The income of the government in the form of customs duty can also increase. Countries like Japan, UK and USA have achieved economic growth through imports of raw materials and export of manufactured goods.

Promotion of International Peace: When countries trade with each other and depend upon each other for their requirements, the tension amongst them gets reduced and a bond of friendship may develop. This helps in developing the cultural and social relations along with the business relations.

Activity 2

Refer the latest Economic Survey and highlight the salient points in relation to promotion of export trade and India’s international business.

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1.5 CHALLENGES IN INTERNATIONAL BUSINESS

As seen earlier, international trade differs from domestic trade in a number of aspects. As compared to domestic trade, foreign trade faces some peculiar/unique difficulties which are as follows:

1. **Distance and High Cost of Transport:** International trade is normally carried over a long distance between the place of manufacture (or origin) and place of consumption, the transport cost may be huge and hence distance plays a major role in decision-making.
2. **Time Lag:** Due to the above factor, it takes much more time to execute an order. It may take several months to realize the money after the receipt of an order and dispatch of goods. Further, longer the time lag more is the risk of the cargo being damaged in transit, especially if it is perishable.
3. **Language, Customs and Laws:** Every country has different social, cultural and legal practices. These differences can create a hindrance in the smooth flow of international trade. Further the difference in languages can also act as a barrier, for example, while trading with Arabian countries the knowledge of Arabic would be of great advantage. Many a times these differences in language lead to misunderstanding.
4. **Currency and Measurement:** Every country has its own currency which is subject to fluctuations in exchange rates. This fluctuation must be properly understood in terms of the currency in the domestic market. Further the system of weights and measurements followed in foreign market may be quite different than the one in the domestic market. For instance, the system followed in India is Metric System, but USA does not follow the same. One must understand how to convert one into the other.
5. **Government Control, Regulation and Taxes:** Every Government sets its own rules and regulations for import of goods and services. These rules may differ from commodity to commodity and from country to country. Depending upon the country of origin, there may be different set of rules. For example, when EU (European Union) countries trade with each other, they charge negligible or no import duty. But when these countries trade with outsiders, they charge heavy duties.
6. **Risk and Uncertainty:** Because of all these difficulties mentioned above, export-import trade is full of risk and uncertainty and hence needs specialized knowledge.

1.6 WHY DO FIRMS GO INTERNATIONAL?

There are various methods of entering foreign markets, from the simplest and least costly (indirect importing and exporting) to one which is complex and risky and requires a great deal of commitment involving foreign direct investment (FDI). The various strategies for entry into foreign markets are explained in Unit 7 of Block 3. The basic question, however, still remains: why do firms want to internationalize their operations?

What do they hope to achieve by going international? This section offers some answers by considering the key elements of the internationalization process which describe the sequence in which a firm evolves from a domestic organization, serving a relatively homogeneous home market, to becoming an active exporter, and then an international corporation serving a large number of diverse multinational and cultural markets.

A firm seeking to enter into foreign markets may do so through one or more of the following mechanisms/arrangements.

Exporting

At its most risk-averse phase, a firm decides to enter foreign markets through licensing arrangement with a local party. The firm is willing to accept the risks of servicing foreign markets through exports. This means exposing oneself to the risks of transit, non-payment, currency fluctuations, among others. The firm discovers that to consolidate and expand the gains of export business, it must invest on the creation of a marketing set up in the foreign market (s).

Licensing

When a Company is unwilling to take any risks for the sake of international business, it sometimes opts for licensing as the mode of entry. Licensing is, simply put, nothing but entering into a contract to allow another firm to use an intellectual property, such as, patent or a trade mark. This definition clearly brings out the fact that as an entry mode, this option is not available to all firms. Only those which have saleable technology, know-how, can use the licensing route. The attraction of licensing lies in the fact that it involves no investment and very little up-front expenditures. And if successful, it can generate a fairly high rate of return. Under a licensing agreement, the holder of the knowledge (technology or know-how) transfers the same to the buyer for his use against the payment of a fixed amount, which can either be a one-time lump-sum payment or a percentage of sales, or a combination of the two.

Licensing arrangements suffer from several disadvantages from the standpoint of the licensor. **First**, the licensor does not have any management control over the licensee and is therefore unable to control either the quality or price. An unscrupulous or inefficient licensee can therefore cause damage to the long-term development of the market potential. **Second**, licensing is extremely limited in its scope. The licensor cannot have a share of the returns from the manufacturing and marketing operations of the licensee. **Third**, the life of the successful licensing arrangements is normally short, as the licensee may develop his own manufacturing capability within a reasonable short period. But the most dangerous aspect of the licensing arrangement is that sometimes the licensees, after they internalize the technology and also in some cases improves upon it, turn into competitors of the licensors.

Franchising

A similar method of entry is franchising which is globally very common in the food, soft drinks and fast food business. Franchising is a form of marketing, under which the parent company allows the franchises to use its methods, symbols, trademarks and architecture. The contract will specify the place of operation of the franchisee and the period for which the arrangement will remain valid. Several forms of franchising are in operation. One form is hundred per cent franchisee ownership; the second form envisages a concept of area or master franchisee who in turn can appoint sub-

franchisee(s). The third is where the franchise is in fact owned by the parent firm itself. This happens essentially at the market-testing stage. The principal wants initially to find out the market potential himself before deciding whether large scale franchising will be profitable.

The basic advantage of this entry method is akin to that of licensing. The upfront expenditure is minimal while the return can be substantial. The disadvantage lies in the fact that unless strict monitoring is done, franchisees may default on quality and delivery, thus affecting the reputation of the principal.

International Joint Ventures

International joint venture involves creation of a separate legal entity by an association of two or more firms. Normally, one of the partners will be a local firm though it is not necessarily so. The choice of this entry method is dictated by several important considerations. **First**, it reduces the cost of entry because the equity will be divided between/among the partners. The foreign firm can thus make an entry into a market even with a minor participation and still can have substantial management control.

Second, having a local partner can reduce the political risks. In an environment which may not be friendly to foreign investors, having a local partner can help in creating a more acceptable public perception. **Third**, the local partner is expected to have a good grasp of local operating conditions and therefore can be of great help to the foreign firm which is unaware of these details.

While these advantages can be substantial, the biggest danger of international joint venture lies in the inappropriate selection of a partner. If the choice is proper, the strengths of the parties will be complementary. But if the choice is wrong, either in terms of operative attributes or management cultures, the joint ventures are bound to break up. Several surveys have shown a considerable 'divorce' rate among the joint venture partners or taking over of the businesses by the dominant partners.

The choice of the joint ventures as the entry mode may, however be dictated by the host country's regulations. Some countries stipulate that foreign firms can set up facilities only in association with local firms.

Subsidiaries and Acquisitions

Wholly owned subsidiaries have been the preferred entry mode for large enterprises. The advantages of complete ownership are: avoidance of conflict of interest, as may happen in the case of joint ventures, and fullest exploitation of the market potential in terms of both manufacturing and marketing. But these advantages are to be evaluated against the large scale commitment of financial and managerial resources. Some firms which are anxious to keep their competitive edge under the strictest control normally favour this entry mode.

The internationalization process is initiated for many different reasons. It is not simply a matter of wishing to go international and achieving success over a short period. The process of internationalization requires the following five basic ingredients if the firm has to be successful:

- A well-developed and clearly articulated mission which reflects a serious commitment to international business activities.

- The ability of the firm to identify and adjust rapidly to consumer needs and opportunities in international markets using products which clearly reflect the firm's competitive advantage.
- The ability to understand consumer behaviour in different cultures and to evaluate the nature of changes taking place.
- The ability to develop and maintain high-quality products which can withstand competition from the nearest rivals in domestic as well as overseas markets.
- A programme of serious and effective business research to identify international markets and their requirements.

Within the context of these ingredients for success in the internationalization process, it would be useful to consider the dichotomy between a reactive firm and a proactive firm. A reactive firm is a passive firm. It follows rather than leads; responds to opportunities rather than actively seeking them; it avoids risk rather than taking risk; it is content with the status quo rather than actively seeking ways to change it; it is inward-rather than forward-looking; and is more concerned with the present rather than with the future which requires planning and investing. In short, a reactive firm is defensive in character and its actions reflect management's response to changes in the firm's external environment and pressures from its competitors. In contrast, a proactive firm is always initiating and creating new products to stay ahead of rivals, always seeking new challenges rather than being content with what has so far been achieved. It is aggressive and is prone to taking risks, and invests for the future to take on its rivals. It is often the case that the more proactive the firm, the more likely it is to succeed in international business.

The internationalization process demonstrates a proactive firm at its best. In some instances much of the firm's FDI activity may be a reactive response to competitors' moves, basically a defensive strategy to discourage entry of new firms into the industry, to increase market concentration, or to undertake mergers and acquisitions (M&As) in order to deny rivals access to valuable assets. The process starts with the firm having a product which clearly reflects its competitive advantage over its rivals, both in home and international markets, often as a leader in its field. Its competitive advantage maybe its superior design capability, the skills of its workforce, the unique talents of its management or marketing team, or simply its ability to do things better or more efficiently than its competitors. In short, to be successful in international markets, the firm must first be successful in its own domestic market. It is this success in its domestic market which often propels the firm to go international.

It has been seen, from the discussion so far, that the firm uses its firm-specific intangible assets to enter foreign markets. Its products and brand name developed over many years need to be fully exploited if the firm is not only to recover its initial research and development costs but also earn sufficient profits to satisfy its shareholders and fund future investment. So, the profit motive is the most compelling proactive motive. In cases where the domestic market is either too small or too saturated, the firm may have no real alternative but to seek markets overseas. The key difference between a reactive and a proactive firm is that a proactive firm does not wait until its domestic market is saturated, demand is showing signs of decline, or it is forced to take action before it actively seeks opportunities abroad by undertaking continuous market research and acting upon its findings.

The **major** reasons why firms go international are:

1) **To Look for New Markets**

International business firms are often characterized as opportunity seekers; that is, seeking to take advantage of any event or development worldwide which is likely to have a positive impact on their marketing and resource acquisition strategies. This particular attribute is especially relevant to reactive firms. One major source of such an impact has been the creation of the European Union or single European market which helped to create one of the world's largest markets by integrating the individual member states' markets into one. Consequently, many distinct opportunities have been created for international business firms to undertake market-seeking and production-seeking investments.

2) **To Expand Market for their Products / Services**

As a consequence of the increasing convergence of consumer tastes and preferences and demand patterns in general, firms find it necessary to establish international customer bases in foreign countries to serve the needs of existing as well as potential customers. The firm is, thus, able to expand its market internationally at a lower cost than by exporting from the home base. A firm with a declining home market may like to enter into foreign markets and extend the life cycle of its product. As the experience of many US, Japanese, and Korean MNCs demonstrates, EU member states offer many location-specific advantages to these firms to enable them to gain access to its single market with over 370 million inhabitants. Firms like Nokia, Siemens, Bayer, Johnson and Johnson, etc. went in search for foreign markets as their domestic markets were shrinking.

3) **To Circumvent International Trade Barriers**

Governments erect various forms of barriers for foreign firms to enter in their domestic markets. These barriers include some of the most common measures such as tariffs and quotas as well as rules and regulations to protect specific industries and markets. These measures make imports less attractive and more costly. Therefore, it makes it necessary for the firm to establish export bases or production facilities in host countries in order to avoid these protectionist measures.

4) **Factor Endowment**

Countries are endowed with different natural and acquired resources which offer international firms yet another set of location-specific advantages, ranging from relatively low-cost labour, raw materials, land for large-scale operations and suitable climate to specific technical skills and knowledge which can only be accessed by establishing operations on location. Even if the firm's home country has similar resources, it may still be advantageous for the firm to locate facilities in another country for additional low-cost resources such as finance. For example, Japan is known for the quality of its steel; however, the Japanese firms have to look at India for the supply of iron ore – a raw material for making steel.

5) **To Reap Benefits of Economies of Scale**

In cases where the domestic market may be too small for efficient production, the firm may want to expand into world markets to create economies of scale (reduction in cost per unit produced as the scale of production is increased). Entry into overseas

markets increases total sales and therefore, justifies larger-scale operations in production, marketing, and transport.

6) To Follow Competition

With an increasing number of firms going international, other firms feel compelled to follow their competitors into markets which may later be denied to them. In oligopolistic industries (those dominated by a few firms making interdependent decisions), it is normal to expect several firms to establish operations in a given country within a short time. The main reason is that any particular change in the internal and external business environment affecting one firm will affect the others at about the same time and, given their interdependence on each other for decision-making, will induce a similar response. For example, the liberalization of trade and investment in India produced almost an instant response by the world's most dominant car producers to establish a presence in one of the world's biggest potential markets. An associated motive might be to create synergy which would result from combining benefits from one location with those of another, especially in cases where the firm is able to combine its own managerial competence with the intimate knowledge and expertise of the local personnel in order to overcome cultural difficulties.

7) To Take Advantage of Government Incentives

Governments throughout the world offer a variety of incentives to attract international firms, especially reactive firms. These incentives range from direct financial assistance to defray part of the initial costs of operations to indirect financial schemes such as favourable corporate tax rates. All these incentives help companies to maximize their after-tax profits and thus provide additional funds to invest either in the host country, home country, or in other countries.

8) To Protect the Domestic Market

In essence this is a defensive (reactive) approach whereby the firm initiates an offensive into the competitors' home market in order to protect its own domestic market. Such an offensive may have the effect of putting pressure on the competitor to reconsider its move or, depending on the strength of the offensive, abandon it completely.

Activity 3

Identify a company in India which has internationalized its operations over the past 5-10 years. Meet an executive of its international division and ascertain the reasons/motivations for the company going international.

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1.7 SUMMARY

International business may be defined as business carried out across national boundaries. The genesis of international business may be traced back to the ancient times when different well known communities carried on their trading activities in different parts of the world. The MNCs are the central actors in international business. There could be several reasons behind a firm's move to internationalize its business. A firm may want to engage in international business in search of new markets, to widen its present market for goods and services, to overcome the barriers that it perceives would confront if it goes international, to reap the benefits of economies of scale, to take advantage of the opportunities offered by other (foreign) governments, or to protect its domestic market from foreign competition, etc.

International business differs from domestic business in terms of the environment it faces. The actors in international business confront different socio-economic, cultural and physical environment in different countries. Therefore, they have to make necessary adjustments in their strategies and approaches of managing business to conform to the diverse environments in overseas markets.

There are some difficulties that are unique to international business which arise because of long distance between trading nations, different languages, customs and laws, currency measurements, different controls, regulations and tax regimes in different countries, and greater risk and uncertainty.

Important benefits of international business include higher standard of living of people in different countries, stability in prices, advantages emanating from specialization, increased productivity, wider markets, overall growth of economies, and promotion of international peace.

International business has assumed greater importance as it enables in the diffusion of new technologies, stimulates competition, provides impetus to standardization, motivates firms to adapt to international environment, encourages globalization of business, and promotes economic cooperation and integration.

International business activities have not only grown but have become much more diverse and complex. As such they require collective or multilateral efforts at global level by global agencies. One direct result has been the emergence of a new world economic order in which national economies are merging into one global economy, either on an individual basis, or as it has recently been seen, in (new) regional groupings. Globalization is a dynamic process in which world markets and the production of goods and services become integrated and interdependent. For individual governments, the most compelling reason to integrate their economies with other economies is to enable them to take collective measures to maximize the perceived gains and minimize the perceived costs of globalization.

1.8 KEY WORDS

International Business: Business carried out across the national boundaries. Some important forms of international business are: export and import of goods and services which includes appointing foreign agents abroad, management of consulting and turn-key operations, licensing, franchising, joint ventures and collaborations, and wholly owned subsidiaries.

Globalization: Globalization can be defined as the growth of economic activity spanning politically defined national and regional boundaries. It leads to the increased movement across the boundaries of goods and services, namely, trade and investment, often of people via migration. It is driven by the actions of individual economic actors – firms, banks, and people – usually in the pursuit of profit and often spurred by the pressures of competition.

Multinational Enterprises (MNEs): MNEs are the central actors in international business and have played a major role in making the world market ‘global’. MNEs are generally defined as organizations whose operations extend beyond the national political boundaries and operate in many nations by making FDI.

Marketing: Marketing is an activity which advocates looking at business activities from the customers’ point of view. It suggests that the firm should develop its products as per the customers’ choice and preferences. The term market refers to the sum total of all the customers (which includes present and potential customers – non-users and customers of the competitors’ products as well).

FDI: Foreign Direct Investment (sometimes also referred to as DFI) means direct investment in business operations in a foreign country, generally, takes the form of either a joint venture/ collaborations or wholly owned subsidiary.

European Union (EU): An economic group of 15 European nations: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Ireland, Italy, Luxemburg, Portugal, Spain, and Sweden. Established as a customs union, it is now moving toward economic union (formerly known as the European Community).

North American Free Trade Agreement (NAFTA): Free trade area between Canada, Mexico, and the United States.

1.9 SELF-ASSESSMENT QUESTIONS

- 1) What do you understand by ‘proactive’ and ‘reactive’ firms? Differentiate between them by highlighting their distinguishing features.
- 2) What prompts the firms to internationalize?
- 3) What special tasks or difficulties an international manager may have to face? Discuss.
- 4) What are the characteristics of international business? How is it different from domestic business? Explain in detail.
- 5) Using examples, examine the possible reasons why a firm may trade in international market.
- 6) Why should Indian firms go global? Why should they not be content with domestic market which is vast and growing so rapidly?
- 7) Why the culture of a country might influence the costs of doing business in that country? Discuss. Illustrate your answer with examples.
- 8) In what ways has the risk of doing business changed in Russia and Eastern Europe since the fall of communism?
- 9) How do you account for the vast increase in world trade since World War II?

- 10) What is culture? Is it important for a manager of international business to take account of culture? Are the forces of globalization making culture a thing of the past? Discuss.
- 11) Identify the barriers to free movement of goods and services. Explain how barriers influence the development of international trade.
- 12) "Selecting the market entry strategy is the key decision which many companies have to take for expanding into overseas markets." Why is it a key decision? What kind of risks and controls are involved? Explain how risk and control is affected by different entry methods.

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UNIT 2 GLOBALIZATION AND EVOLVING PARADIGM

Objectives

After reading this unit you should be able to:

- explain the concept of globalization;
- describe the evolving paradigm of globalization;
- identify the factors which influence the process of globalization;
- describe the importance of industry globalization drivers; and
- explain the strategic implications of global strategy.

Structure

- 2.1 Introduction
- 2.2 Concept and Meaning of Globalization
- 2.3 The Evolution of Globalization
- 2.4 The Evolving Paradigm of Globalization
- 2.5 Effects of Globalization
- 2.6 Drivers of Globalization for an Industry
- 2.7 Strategic Implications of Globalization
- 2.8 Summary
- 2.9 Key Words
- 2.10 Self-Assessment Questions
- 2.11 References/Further Readings

2.1 INTRODUCTION

Globalization has long been considered similar to internationalization. However, globalization is a broader concept which extends beyond integration of market and influences all aspects of international economy. Its evolution can be traced to the beginning of 19th century and it has developed in different phases to the present times. It has led to the integration of the world economy which has added an element of interdependence among nation-states and society on various aspects of life. The process of globalization deals with the integration of global economies, global strategies, global industry and global markets. There are certain globalization identifiers which have been termed as industry's globalization drivers. These include an industry's external drivers which affect the degree of globalization (Figure 2.1). Globalization also has strategic implications which are in the form of international alliances, organizational challenges, Government relations and competition.



Figure 2.1 : Developments Leading to Higher Degree of Globalization

The waves of globalization led to increased economic integration among countries and as a result the proportions of domestic versus international trade have also changed among countries. There has been uneven distribution of gains of globalization. Some nations benefitted immensely from expanding and diversifying world trade while many others become import-dependent to a level which is economically unsustainable for them to participate in next phases of globalization. Moreover, the benefitting countries start dictating their economic and geo-strategic terms leading to widespread dissonance of un-even distribution of gains from the globalisation. In order to address their national interests, some countries like the US and India start increasing tariff rates, primarily to discourage imports and encourage domestic industries. This is followed by proliferated non-tariff regime by many countries which includes the EU, the US, and many developing countries in Africa, Asia and Latin America.

The tsunami of Covid-19 pandemic and resultant disruption of supply-chains originating from China has further given rise to anti-globalization debate. The investment rules are also tightened to discourage hostile take-overs of firms. India for instance, tightened the investment rules from the countries with which it shares borders, primarily from China. The nation-state framed policies that are aimed at encouraging domestic or regional production. For example, Japan offered incentives to its industries to relocate back home in Japan and if not possible to relocate away from China in any other country in the world. The government of India introduced Self-Reliant India Scheme and introduced incentives for enhancing domestic production and discouraging imports. In 2016 the US administration introduced ‘America-First Policy’ to promote domestic industries and employment. All these developments indicate the paradigm shift in the process of globalization.

In the context of above, this Unit will help us different aspects of globalization.

2.2 CONCEPT AND MEANING OF GLOBALIZATION

‘Globalization may be hard to define, because the term “globalization” could be defined from different points of view. Globalization is perhaps the most important force at work in contemporary society, business, management and economics (Stonehouse et. al., 2004). While some people think of globalization as primarily synonym to global

business, in fact, it is much more than that. Economic globalization has been joined by political globalization leading to providing opportunities to respond to globalization challenges. Technological globalization accelerated the rapid diffusion of free enterprise through new means of communication. Many new opportunities are coming from the advances in computer technology. E-commerce and Internet are changing many a selling and purchasing process. The Internet has emerged as a vital tool linking enterprises/firms internally and externally with customers, strategic partners and critical suppliers. The computer network expanded technological possibilities of data exchange with 200 countries (Krajewski et.al. 2005). Together, economic, political and technological globalization has spawned a new phenomenon called psychological globalization which is defined as deepening relationships and broadening interdependence among people from different countries (Kluyver et al., 2003; Daniels et al., 2002; Grazina J and Marija K., Ekonomika 2006).

As per UNESCO globalization can be defined as a “*set of economic, social, technological, political and cultural structures and processes arising from the changing character of production, consumption and trade of goods and assets that comprise the base of the international political economy*”.

Globalisation can also be defined as the global spread of production and trade which is comprehensively supported by technology, unrestricted mobility of capital and largely facilitated access of labour. Globalization involves the interconnection of countries, economically and culturally and these interconnections are shaped by newer and smarter evolution of technologies, political support and facilitated legal and regulatory regime. The result of globalisation has been the coming together of disparate cultures, political systems and patterns of economic development.

Definition of Globalization

Economists differ globally on definition of ‘globalization’ and there is no universally agreed definition of globalization. The term globalization is typically used to refer to international integration among economies on areas such as production, investments, and trade and labor markets. Hence; globalization refers to a movement toward economic, financial, trade, and communications integration among countries. In other words, globalization means the opening of local and nationalistic perspectives to a broader outlook of an interconnected, reciprocal and interdependent world order which facilitates the free flow of goods and services, capital, and ideas (Case-Let: Globalizing Yoga) across national boundaries. Globalization does not include unhindered movement of labor however such free flow may exist among agreed trade blocks and economic union. If, bench marked with degree of economic, social, political and environmental integration; globalization is not a new phenomenon. It has existed for centuries and is a continuous process; it is the increased degree of such integration that makes globalization a buzz word in 21st century.

Case-Let: Globalizing Art of Yoga: Transforming Global Values in Indian Way

The efforts of Government of India to pursue Indian value system and promote Indian culture at global level bear the fruits when the UN General Assembly endorsed an India-led resolution to declare June 21st as International Day of Yoga. It is worthwhile to note that Indian motion is co-sponsored by around 175 nations, which is the highest ever number for any General Assembly resolution. The introduction

of Yoga to the world has been from the ancient times but its formal acceptance at UN platform vindicates the growing clout of Indian culture at world level, sweeping the global lifestyle canvas in Indian way of living, a Yogic way of living which offers both the tangible and unseen benefits to mankind. Yoga now has universal appeal to the people around the world. In India's drive of cultural globalization, Yoga is in fact, an invaluable gift of India's ancient tradition to the entire mankind to explore spiritual, emotional, intellectual heights and tap the innate potential of one's strengths. Yoga is a divine gift which embodies the unity of mind and body; thought and action; restraint and fulfilment; harmony between man and nature; a holistic approach to health and well-being. Yoga is not mere a physical exercise but is a medium to discover the sense of oneness with yourself, the world and the nature. Globalization of Yoga to world level helps the entire mankind to change their lifestyle and create consciousness, help deal with global problems of terrorism, climate change and drug-trafficking as Yoga preaches reticence and sacrifice from worldly affairs. Yoga offers great business opportunity to India. According to Allied Market Research, the global market size of Yoga services is valued at \$37.5 billion in 2019, and it is further likely to grow to \$66.22 billion by 2027. Another estimate says it is likely to be \$ 100 billion market and Indian teachers of Yoga can tap a huge business opportunity from this growing market in the world. Yoga market is mushrooming in western developed countries of Europe and North America. By country, the US is the largest market. Yoga is getting popular in Asia-Pacific. Accordingly to one estimate that Yoga teachers from India are high in demand in countries of Europe, the US and Asia-Pacific. In addition to globalizing Indian culture at world stage, choosing Yoga as a career is a sound decision as it offers prosperous life in the countries such as the US, Europe, China, Vietnam and Australia. Demand for yoga equipment grew by 154% during the COVID-19 pandemic (Research and Markets, 2020). There is shortage of Yoga teachers at world level, and it is estimated that globally there is need of 1 million Yoga teachers as the number of people who are practicing yoga are ever-increasing in the world. Yoga is not a mere meditation, it in fact is a life fulfilling practice based on science. In this context, Yoga as a career is a good professional choice for international assignments. India being service economy has great opportunity to tap, thanks to cultural globalization through the declaration of June 21st, as the International Day of Yoga.

In recent years, globalization has become a key concept/theme in every research or conference relating to international business/international marketing strategy. Ever since Levitt's (1983) article on globalization of markets was published, academics and practitioners have debated whether international markets are becoming homogenous, and if the international marketing paradigm ought to change from highlighting national differences to exploring international similarities. In the field of management, the term globalization has often been used interchangeably with internationalization.

For managers, globalization is not only a curiosity, but also an actuality that has to be dealt with on a daily basis. The scholars, however, have diverse thinking and attitudes toward globalization. Christopher Rodriguez, the then CEO of Thomas Cook Group views globalization in a very narrow way as "running a global business from a global centre." Similarly, Richard Grasso, the then Chairman and CEO of the New York Stock Exchange, treats globalization as an economic trend: "Global markets when they are realized in their entirety, are the ultimate result of a trend now under way, called globalization."

Activity 1

Identify two firms which have expanded their operations from domestic to global market and analyze how they have gained due to globalization.

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2.3 THE EVOLUTION OF GLOBALIZATION

Having discussed the concept of globalization in sufficient detail, we now turn our attention to another aspect, i.e., the origin and evolution of globalization.

Origin of Globalization

Globalization is the process which began in the 20th century with the spread of capitalist system around the world. However, globalization has evolved over centuries as a socio-economic phenomenon. As a result, globalization is not a new phenomenon as the world system has maintained some of its main features over several centuries. In the beginning of 14th century, modern political system of governance originated in parts of Western Europe which was experiencing a prolonged crisis of feudalism. This paved the way to the rise of market institutions and technological innovation. Europeans reached other parts of globe through the long-distance trade routes and made technological advances in production techniques and methods. Europeans started colonizing the parts of world, taking raw material and processing it into finished goods and again selling those goods in the markets around the world including their colonial markets. This led to accumulation of wealth, which supported a strong and superior military power. The technological innovations resulted in improved means of transportation thus further facilitating the strong economic linkages among nations around the globe. In nutshell, a capitalist economic power of the Europe succeeded in geographic and occupational division of labour.’

(Source: www.sociology.emory.edu/globalization/theories01.html)

Stages of Globalization

There are various stages of globalization.

Cavusgil et. al., (2009) have identified four distinct stages of globalization beginning the 1800s. Each stage of the evolution is marked by changes in technological innovations and international trends.

The first stage of globalization which started in 1830; became more stabilized by 1880. This period was marked by the growth of global business due to development of railroads, ocean transport, and large scale manufacturing and trading companies. Telegraph and telephone were invented which further gave rise to enhanced information flows between nations and facilitated the management of supply-chains among the companies.

The second stage of globalization which started around 1900 was marked by the increase in electricity and steel production. This stage of globalization reached its climax

during the Great Depression of 1929. Western Europe was the most industrially developed region of the world in 1900. Multinational firms were established as a result of European colonization of Asia, Middle-East and Africa. The companies like Siemens, Nestle, Shell and British Petroleum had established their subsidiaries in various parts of the world. Before 1914 (First World War), many companies were established at the global level.

The third stage of globalization started around 1945 after World War II when Europe and Japan were devastated by the war and USA and erstwhile USSR emerged as a dominant power. During the war the trade barriers were high. Soon the developed countries wished to lessen the barriers to international trade. This led to Bretton Woods Conference of 1947 in which 23 countries participated and resulted in the setting up of General Agreement on Tariffs and Trade (GATT) which sought to liberalize trade and investment by reducing barriers. This gave rise to industrialization, modernization and improving the standard of living. GATT was subsequently replaced by another multilateral agency, that is, World Trade Organization (WTO) which is established to regulate international trade and investment and to introduce equality and transparency in global exchange. To further facilitate international co-operation, two international organizations- International Monetary Fund and World Bank - were set up in 1944. This was followed by the rise of Multinational Corporations (MNC's) like Coco-Cola, Philips and IBM which established their global presence by the virtue of technological and competitive advantages and started outsourcing their business to developing countries to reap the benefits of cheap labour and easy access to global markets.

By 1960's; the increase in the process of liberalization by removing trade barriers and currency controls led to increase in international trade and investment and integrated international financial markets. This was followed by increasing competition among the US, European and Japanese MNCs.

1980s marked the beginning of the fourth and present stage of globalization which experienced increasing global trade and investments. This stage witnessed increasing use of computer, Internet, and development of information and communication technologies. The newer and smarter technologies are enabling the industrial production which is widely referred as Industrial Revolution 4.0. This period saw the disintegration of Soviet Union (1991), emergence of market economies of Europe (1990-2008) and development of countries like China, Brazil, India and Mexico (1980-to date). Technological advancements in transportation, information and communication led to integration of world economy and also facilitated development of services like insurance, banking, fin-tech, e-commerce, infotainment, retailing and tourism. This was followed by strategic alliances like mergers and acquisitions among corporate units and the world came to be known as a 'global village'.

The four stages of globalization, with their triggers and key characteristics are presented in Table 2.1.

Stages of Globalization	Period	Triggers	Characteristics
First Stage	1830 to late 1800s, peaking in 1880	Introduction of railroads and ocean transport	Rise of manufacturing, cross border trade of commodities, largely by trading companies

Second Stage	1900 to 1930s	Rise of electricity and steel production	Emergence and dominance of early multinational enterprises (primarily European and North American) in manufacturing, extractive, and agricultural industries
Third Stage	1948-1970s	Formation of General Agreement on Tariff and Trade (GATT); End of World War II; Marshall Plan to reconstruct Europe	Concerted effort on the part of industrializing Western countries to gradually reduce barriers to trade; rise of multinational companies from Japan; cross border flow of money paralleling the development of global capital markets.
Fourth Stage	1980-2008	Radical advances in information, communication, manufacturing, and consultation technologies; privatization of state-owned enterprises in developing countries; remarkable economic growth in emerging markets	Unprecedented rate of growth in cross-border trade of products, services, and capital; participation in international business of small and large companies by investors from many companies; focus on emerging markets for export, FDI, and sourcing activities.
Fifth Stage	2008- to date	Disruptive changes in the ways, the entire supply chain processes works, Algorithm based technologies such as AI/IoT/Block-Chain is transforming the entire business economic system. The flip-side of Industrial Revolution 4.0 is that it is creating classes, rich getting richer and poor getting poorer.	Industrial Revolution 4.0 is transforming the global business landscape. The one who invest, learn and master these disruptive technologies, will rule the world. The three main by-products of Industrial Revolution are ever-growing number of fin-tech transactions, e-commerce based cross border trade and customer-centric lean manufacturing.

Source: Adapted from Cavusgil S.T, Knight G, Riesenberger J.R (2009), International Business: Strategy, Management and the new Realities, Pearson.

2.4 THE EVOLVING PARADIGM OF GLOBALIZATION

Now, let us discuss the evolving paradigm of globalization in the context of latest geo-economic and geo-strategic developments in the world economy.

Debate on Evolving Paradigm of Globalization

Covid-19 and resultant disruption of economic activity and trade supply chain has once again brought to lime light the contagion call of balancing the global supply chain operations. The sudden rise of China and resultant trade imbalances have been the subject matter of worry to many countries in the world. The trade-war between the US and China is testimony of it wherein the US has accused China of violating the fundamental principles of WTO, which are non-discrimination and transparency by leveraging ambiguous and vague trade rules in favour of Chinese manufacturing and

technology giants. Trade imbalances has been a matter of immense discussion in many developing countries which have started questioning the merits of market-oriented economies as propagated under the Washington Consensus.

A large number of developing countries in Asia, Africa and Latin America are propagating the inward looking policies as they realized that benefits of globalization are unevenly distributed in hands of either select developed countries or in the hands of China and few South-East Asian Economies. With import turning unsustainable in many countries of the world, the domestic policies are re-aligned in favour of domestic manufacturing and trade. These development has given rise to the debate that globalization has been abandoned. The pandemic-driven economic recession, increasing strategic hegemony and mistrust, re-alignment of countries on new platforms like AUKUS (Australia, the UK and the USA) and Quad (Australia, India, Japan and the US) has given rise to debate of realignment of global supply-chain. Many global firms are following a China+1 strategy wherein these manufacturing and trading giants are re-working their supply chain operations to newer markets beyond China. The right term to denote such an economic realignment should be referred as Re-Globalization.

However, some experts call it a phenomenon called gated-globalization. They argued that the regions from North America to Latin America, Europe, Asia, Africa and even in Oceania, the nationalist policies are aimed at creating walls with restrictive gates, heralding an era of selective trade policies with selective trade partners. India has also announced the 'Self-Reliant India Scheme' (Atmanirbhar Bharat Scheme) which is aimed at promoting and encouraging domestic production and substituting imports in 12 major industrial sectors. Economic walls are being created with a definite and clear objective of strengthening and supporting local businesses and promoting self-sufficiency. For example; India has decided that all procurement up to Rs. 200 Cr. will be reserved for domestic industries only. USA has made a clarion call for certain industries being completely indigenous; pharma, aerospace, defence and electronics, being the first and foremost. EU is seriously exploring the possibility of relocating certain industries to low wages centres in Eastern European countries. Japan has announced a \$200 Billion package to fund, shift, structure and sustain the industries from China to either in Japan or elsewhere in the world. These developments indicate that the part of world economy is moving towards Gated-Globalization.

Gated- Globalization can protect countries from any future economic contagion, natural or man-made but it is advocated that it will be less damaging economically. Quad (Australia, Japan, India and USA) are more vocal about Gated-Globalization and Quad Plus (Israel, Brazil, South Korea and Viet Nam) has joined that band wagon recently. India has domestically taken several measures aimed at discouraging imports, promoting domestic industries especially MSMEs and encouraging 'Make in India' and soliciting industries willing to relocate out of China. In nutshell, Gated-Globalization will discourage free global competition and free movement of capital in a most competitive market but will move to selective markets for selective trade gains. Re-globalization on the other hand calls for making future investment and industrial expansion in countries which are equally competitive or will be competitive or an attractive consumer markets (Viet Nam, Thailand and India) in near future i.e. Re-globalization believes in China +1 strategy thus trading off the uncertainties which the world economy witnessed during Covid-19 pandemic. Re-globalization is based on positive strategy while Gated-Globalization is negatively addressed and its resultant fall-out will not only be geo-economic, but geo-political and geo-strategic as well.

India Policy Choices: Globalization, Re-Globalization and Gated-Globalization

As a nation, India has to make choices about what can work for India. While Gated-Globalization is restrictive and trade-distorting as it is the government which will decide whom to trade with and what kind of investment regime they would like to have with. Gated- globalization for any country is not possible as it disallows the market access to the most efficient and effective trade supply chain, providing essential and cost effective inputs, for trade of both capital goods and networked products. Will India's pharma and auto supply chain be as efficient and effective without access to vast, competitive and reliable supplies as originating from China? As a vast, economically differentiated and culturally diverse country, our choices and business are bound to split for example, India's MSMEs always demand protection from foreign competition, whereas, the more efficient MNCs advocate the open, non-discriminatory and transparent trade policies. Large enterprises in India hate selective trade policies which hinder their trade expansion to newer regions and resultant profitability. Indian consumer also have varied choices vis a vis globalization and gated-globalization, for example, educated, economically independent and urbanized consumers ask for products which are globally benchmarked with highest quality standards and competitively priced irrespective where they are produced while semi-urban and rural consumers prefer Indianized and indigenous products as they believe in thriftiness, simplistic living and culturally resonating Indian products, because of much of the work done by organizations Swadeshi and nationalistic leanings.

India should carefully and intelligently weigh options as Atmanirbhar Bharat is for Self-Reliance or Isolation or Gated-Globalization with a select group of countries. The prime challenge of the relocation of production centres from China to any other country will not be an easy task. China as on today is the factory of the world, enjoying scale and scope advantages in production and trade. It is the largest exporter of the world. China is a global factory and its share in global trade in some sectors exceeds 50% of world trade, however its overall share is around 12-13%. China's role, status and significance in global trade and supply chains have grown ever since its membership was accepted into the World Trade Organisation in 2001. Multinational as well as global investors want to leverage China as a cost-effective producer of goods and tap the global trading opportunities that China offered, both in terms of production and as a source of demand for their products. The Tsunami of Covid-19 is likely to reverse this era of globalisation and will reverse it to re-globalization in other countries offering "China+ One" strategy to overcome future risks associated with trade supply chains.

The 'Trade War' with USA, increasing geo-strategic hegemony with neighbours, rising wages and failing and crumbling investments in Road & Belt Initiatives had already incentivised some nations as well as multinationals to relocate their supply chains away from China to other parts of Asia. For example, the textile sector has already moved to Viet Nam, Bangladesh, Sri Lanka and Thailand. Covid-19 pandemic is pushing more firms to relocate, for example leather producing firms want to relocate to Agra, Kanpur and Ranipet (Tamilnadu) as they find India to be more attractive in terms of supply of raw material and labour costs. Real challenge will be ensuring shifting of China's Electronic and Electrical heavy weights and ensuring re-globalization of countries like India, Viet Nam, Israel, Brazil and Thailand. Re-globalization of key industries to new production centres will ensure a Supply Chain Network that is far less dependent on China and are more diverse. Re-Globalization Strategy will be not without potential challenges for example; it is far more difficult to shift industries for sectors like automotive

sector, pharma and electronics and electrical sector. It will be near impossible for certain, like ship building, plastics, bulk chemicals for use in health and agro industry, metallurgy based industries. In the above context, Indian policy makers and firms should make the case for regionalised supply chains that are networked, inter connected to China but are not dependent on China. The strategy of re-globalization of Asia with shifting of industries from China makes a sense for India, not the Gated-globalization at the moment.

2.5 EFFECTS OF GLOBALIZATION

Now you have a fair idea of how present day globalization evolved. We shall now briefly discuss the effects of globalization.

In Section 2.2 we have examined several definitions of globalization given by various thinkers. You might have noted a common feature of the definitions by these thinkers who regard globalization as a process of increasing the economic, political, cultural and technological interdependence among nations and countries. Globalization is a process by which there is an increase in inter-connection and dependence between nations, people and businesses through greater cross-country mobility, communication and cross-cultural exchanges. Thus globalization process has given impetus to greater global production and distribution of products and services of a homogeneous kind on a world-wide basis. Now we can demarcate the separate areas of the effects of the process of globalization. These areas of effects of globalization are as follows:

- 1) **Integration of Economies:** Globalization essentially leads to greater interdependence among countries. For instance, China is a largest producer of raw material for pharmaceuticals, known as Active Pharma Ingredients and Excipients. India imports huge quantities of these APIs and Excipients from China to manufacture a variety of generic drugs to world market. India is referred as the pharmacy of the world for its innate capacities to supply generic drugs to world markets at a fraction of cost of what some of these drugs are sold in developed countries. In this process, the entire mankind benefits from the raw material expertise of China and manufacturing excellence of India for supply of low cost generic drugs to world markets.
- 2) **Integration of Strategy:** A global strategy would require establishing the brand name and products in prominent markets globally, in order to reap the benefits of competitive advantage through scale, scope, systems and synergy economies. This further facilitates integration of global vision, business strategy and business activities throughout the world.
- 3) **Integration of Industries:** Globalization facilitates the increase in integration of production activity and distribution of value added goods to world markets on the basis of competitive advantages. Global industries become inter dependent enjoying location advantages by virtue of their presence in host, parent or third world countries and leveraging the cost-effective factors of production in the entire supply chain operations of a firm.
- 4) **Integration of Markets:** Globalization leads to lowering of tariff and non-tariff barriers thus providing bigger market access. The consumers further benefit from cultural globalization as they start using the standard products as being consumed or used in developed countries. The name and brand of

products are popularly known in various markets under the waves of socio-economic globalization. This has created homogeneity in tastes and liking of end users for a product in specific markets.

The process of globalization integrates global economies, global strategy, global industries, global markets, global drivers and global players in order to create organizations for global environment. It has created integration of services, resources and products thus creating a boundary-less environment (Grazina J., Marija K., 2006).

2.6 DRIVERS OF GLOBALIZATION FOR AN INDUSTRY

An industry becomes global because of the occurrence of certain factors. From that stand point, every industry cannot be a global one. There are certain drivers which determine the potential for globalization of an industry.

There are four broad groups of drivers of globalization of an industry. These are: Market, Cost, Government and Competition (Table-2.2). Together, these four sets of drivers cover all the major critical industry conditions that affect the potential for globalization. The drivers are primarily uncontrollable and each industry has a level of globalization potential that is determined by these external drivers.

Table 2.2: Industry Globalization Drivers

Market Drivers	Cost/ Economic Drivers
<ul style="list-style-type: none"> • Convergence of lifestyles & tastes • Increased travel creating global consumer • Growth of global and regional channels • Establishment of world brands • Push to develop global advertising • Shortening product life cycle 	<ul style="list-style-type: none"> • Continuing push for economies of scale • Accelerating technological innovation • Advances in transportation • Emergence of Newly Industrialized Countries (NICs) • Increasing cost of product development
Government Drivers	Competitive Drivers
<ul style="list-style-type: none"> • Reduction of tariff barriers • Creation of trading blocs • Decline in role of government • Reduction in non-tariff barriers • Shift in open market economies 	<ul style="list-style-type: none"> • Increase in level of world trade • Increase in foreign acquisition of corporations • Companies becoming globally centred • Increased formation of global strategic alliances • Globalization of financial markets • Culture comprises the values and unwritten rules that guide behaviour in a corporation.

Source: Yip, G.S. (1992). Total Global Strategy: Managing for Worldwide Competitive Advantage, Englewood Cliffs, NJ: Prentice Hall.

Proponents of global marketing argue that because market needs are homogenous, country differences are less relevant to international marketing planning. Yet, others assert that the existence of global markets is a “myth”. They point to the many contradictory trends around the world, suggesting stark differences in national markets and hence the need for adaptation and customization of international marketing, based on individual country differences.

The removal of trade barriers and the growing similarity of national markets created the potential for globalization of markets and competition. The development of MNCs or of global networks allying independent firms, cheap technology, and effective transportation & communication services has provided the practical means necessary for the integration of supply-chains. These conditions are necessary, but not sufficient. Intense competition in most industries is the driving force necessary for integration and globalization.

A discussion on globalization (for example, Cavusgil and Zou, 1994) has shifted the attention to a more fundamental issue: the underlying motives of the firm. Jain (1989) asserts that strategy adaptation (versus globalization) is the means to an end – the establishment of a firm’s economic assets and competitive position in the market place. The fundamental question is ‘*when a firm operates in an overseas market, what are its ultimate objectives?*’ The need to broaden the discussion to include the firm’s strategic perspective in this debate has been articulated by several authors (e.g., Walters; Douglas and Craig; and Szymanski, Bhardwaj and Vardarajan).

Until recently, studies have treated a firm’s choice of its global or local strategy, as the outcome variable, that is the result of a firm’s marketing plan. Recent studies have expanded this limited scope, to study how global or local strategies affect the overall position of the firm. Douglas and Wind and Jain point out that one key payoff of the decision on globalization and adaptation is the competitive advantage of the firm. While discussing alternative product policy options for firms, Walters and Toyne emphasize the need to evaluate such options in the context of the competitive strategy of the firm.

The following **four** factors affect a company’s ability to formulate and implement global strategy:

- **Organization structure** comprises the reporting relationships in a business—the ‘boxes and lines’.
- **Management process** comprises the activities such as planning and budgeting that make the business run.
- **People** comprise the human resources of the worldwide business and include both managers and all other employees.
- **Culture** comprises the values and unwritten rules that guide behaviour in a corporation.

Figure 2.2 elaborates the above factors further. The figure gives an overview about the external drives of industry potential for global strategy.

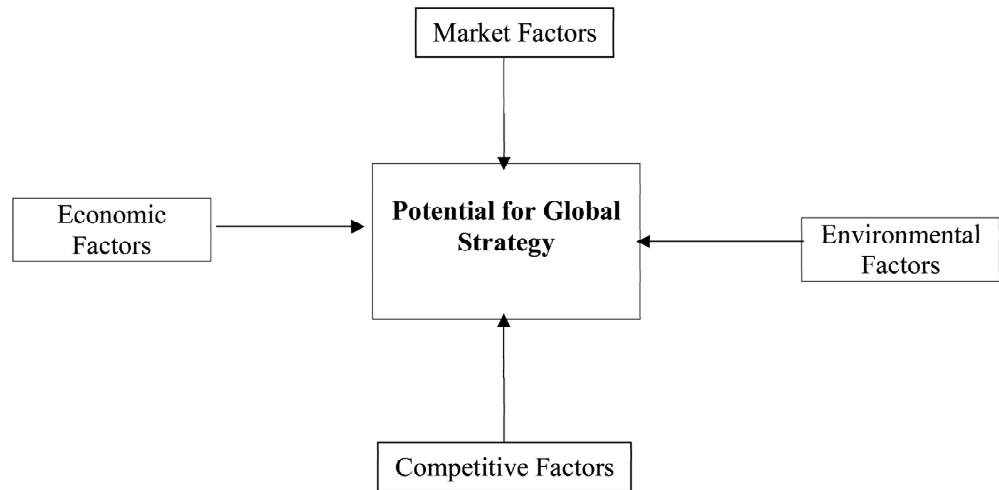


Figure 2.2 : External Drivers of Industry Potential for Globalization

The potential for global strategy include following four factors:

- **Market Factors:** These include the homogenous market needs, the global customers/consumers, transferable brands and promotional strategies and internationalization of the distribution channels. These factors affect the competitiveness of the industry.
- **Economic Factors:** These factors include the global economies of scale in manufacturing and distribution, worldwide sourcing efficiencies and significant differences in country costs.
- **Environmental Factors:** The factors like declining transportation costs, improved logistics networks, fast telecommunication facilities, and other technological developments including facilitative government policies are the external drivers for the industry.
- **Competitive Factors:** The factors like competitive inter dependence among countries, global moves of competitors and the prevailing opportunities to pre-empt the global moves of the competitors work as an aid for developing a global strategy.

Besides these, to become globally competitive, the company needs to focus on the following:

- Developing a marketing plan with universal appeal.
- Help employees understand the company’s global vision.
- Learning from mistakes that others have made in the past.
- Select the right partners for joint ventures overseas.

Activity 2

Identify a MNC of your choice and analyze the factors which have helped it to formulate its market plan and select partners for joint ventures.

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2.7 STRATEGIC IMPLICATIONS OF GLOBALIZATION

As pattern of international competition shifts towards globalization, there are many implications for strategy formulation. In a global industry, functions of finance, marketing, human resource planning and manufacturing processes become far more complex. Further, the changing government policies of the host countries have its implications for a global company or firm. The strategic implications arising-out of globalization are described as under:

- a) **International Alliances:** International alliances are inherent implication of the globalization. As a firm become global, it has to enter into alliances with similar kinds of firm for the purpose of manufacturing, sourcing, and marketing and even for supply chain and logistics operations to cut the cost of business. The compatibility with the alliance partners, in business vision, management philosophy, profit motives, ethical practices have its important bearing on the global strategy of an internationally engaged business firm.
- b) **Organizational Challenges:** The need to configure and co-ordinate globally in complex ways creates some obvious organizational challenges such as organizational structure, reporting hierarchies, communication linkages and reward mechanisms.
- c) **Relations with Government:** In the globalized era, the selection of foreign markets to enter and the mode of entry will, by and large, depend on the negotiations with the foreign Government. The 'muscle power' of the global firm can be crucial in determining the shift of power equilibrium. A global firm must 'manage' its relationship with the foreign Government to its advantage. A shining example of what happens if it fails to do so is Enron Power Corporation in India.
- d) **Competition:** A global firm may be in a better position to compete with its global rivals as it can augment its resources globally.

These implications of globalization will lead companies to take care of these issues forcing them to formulate an appropriate strategy to handle them. Levitt (1983) has given an illustration of various forces affecting global integration. These are summarized in table 2.3.

Table 2.3: Forces Affecting Global Integration

Global Integration	
Driving Forces (Drivers)	Restraining Forces
Technology	Culture
Culture	Market Differences

Market Needs	Costs
Costs	National Controls
Free Markets	Nationalism
Economic Integration	War
Peace	Management Myopia
Management Vision	Organization History
Strategic Intent	Domestic Forces
Global Strategy and Action	

The remarkable growth of the global economy over the past 50 years has been shaped by the dynamic interplay of various driving and restraining forces. During most of these decades, companies from different parts of the world achieved great success by using global strategies. The momentum of globalization is greatly facilitated by technological innovations, for instance, Google became world famous in short period of time. No one has imagined that Elon Musk will become one among the richest persons in the world in a short span of time in 21st century. Today, the growing importance of global business stems from the fact that driving forces have more momentum than the restraining forces.

It is, however, important to recognize that in the near future financial and trade activities will still be the dominant forces and features of globalization. Nevertheless, it is essential to point-out that trade is only one of the myriad of global activities related to globalization. Free movement of capital, goods, and labour and the establishment of a civil society, where cultural and political tolerances are the norms, are the foundations of true globalization.

2.8 SUMMARY

To sum up, the pillars of globalization are open trade and vital civil and legal institutions that uphold individual and group rights while facilitating social and economic integration. The benefits of international trade are numerous, e.g., job creation, improving customer welfare, stimulating economic growth, and so on. Nevertheless, limiting globalization only to trade and the profits associated with increasing trade volumes does not do justice to growing beliefs and practices that aim at establishing a prosperous and stable world. In other words, globalization cannot just be synonymous to trade volume and export profits. It is an orientation that seeks to enhance and strengthen global understanding and effective business, professional, and personal interactions. The focus on trade volume and on exports limits the ability and capacity of people to become involved in activities that release energy and stimulate global thinking and behaviour. In addition, focusing on trade volume alone may prevent individuals and organizations alike from moving forward in advancing causes and programs that are not profit-oriented. While it is a misjudgement to discount the importance of profit-oriented activities in furthering globalization aims, it is equally a mistake to disregard non-business activities. These activities are expected to be crucial for strengthening global thinking and practice in the decades to come.

2.9 KEY WORDS

- Globalization** : Globalization can be defined as the growth of economic activity spanning across politically-defined national and regional boundaries. It leads to the increased movement of goods and services across boundaries, namely, trade and investment, and also of people via migration. It is driven by the actions of individual economic actors – firms, banks, and people – usually in the pursuit of profit and often spurred by the pressures of competition.
- Strategy** : It refers to the actions that managers take to attain the firm’s goals during a particular period.
- Standardization** : As a policy, a MNE offers standardized, that is, same marketing-mix (product, price, promotion and place) across all the markets that it operates all over the world. It considers world as a single market and hence offers identical marketing-mix all over.
- Adaptation Policy** : Adaptation policy suggests that the country markets are different due to socio-cultural, economic, political and legal environmental forces. Hence, a firm must offer differentiated marketing-mix as per the specific requirements of the country market that it operates in.

2.10 SELF-ASSESSMENT QUESTIONS

- 1) Define globalization in your own words.
- 2) Discuss the different stages of globalization and give two examples for each stage that facilitated the process of globalization.
- 3) Write an essay on evolving debate on globalization including the paradigm shifts.
- 4) What have been the effects of globalization? Explain with examples.
- 5) What forces have been driving the development of globalization? Discuss.
- 6) What are the strategic implications of globalization? Discuss by citing a recent example.
- 7) What are the main challenges that are faced by international managers in managing and controlling a global business activity? What advice would you like to give to a manager who is involved with global operations?

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UNIT 3 INTERNATIONAL BUSINESS ENVIRONMENT : AN OVERVIEW

Objectives

After reading this unit, you should be able to:

- appraise the international business environment;
- analyze the political, economic, social, technological and legal environment;
- identify the key economic issues that influence international business;
- understand the transition of certain countries to a market economy and the effects of the latter on international firms and their managers; and
- appreciate the dynamics of political, social, technological and legal environments and their influence on business.

Structure

- 3.1 Introduction
- 3.2 Appraising International Business Environment
- 3.3 Political Environment
- 3.4 Economic Environment
- 3.5 Social and Cultural Environment
- 3.6 Technological Environment
- 3.7 Ecological Environment
- 3.8 Legal Environment
- 3.9 Summary
- 3.10 Key Words
- 3.11 Self-Assessment Questions
- 3.12 References/ Further Readings

3.1 INTRODUCTION

A firm has no control on external environment even in domestic business where it have to deal with issues like, tax rates and policy, changes to the economic structure, threats from competition, political factors, government regulations, industrial licensing and approvals, ecological concerns, legal compliances to different acts and rules and dealing with changing technological landscape. This becomes extremely complex when a firm enters international business as it has to deal with different business environment in the countries, it enters with. International business environment is regarded as the “*sum of all the external forces working upon the firm as it goes about its affairs in foreign markets*”. A firm can plan a course of action to manage uncontrollable external factors in the domestic business as managers are familiar with business landscape of the country and forces shaping it including political economy of home country.

This is not the case for international business operations where many uncontrollable external forces can challenge it. Some examples of such challenges are uncertainty of foreign trade regime, different political environment, changed economic legislation, confusing tax policies and procedure, misleading cultural interpretations and complex legal compliances. Hence, the managers of an internationally engaged firm need to scan the following elements of international business environment to enter a market for business (Figure 3.1).

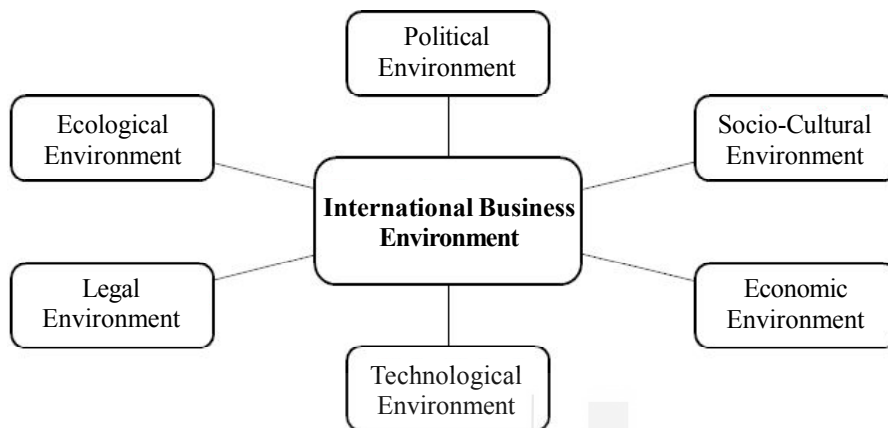


Figure 3.1 : Elements of International Business Environment

Source: Export-Import Management, Dr. Ram Singh, Sage Books, 2020.

Figure 3.1 as illustrated sometimes is also referred as PESTEL analysis of business environment. Any firm intending to go-global require **economic** data of prospective national economies to interpret, analyse and make cross border comparisons using standard criteria to understand the external environment affecting their business. Fortunately, such data is available online and an exporter can easily analyse the nature of the environment on a country-by-country basis. Each economy has national accounts data, indicating estimates of gross national product including growth trends, gross domestic product, consumption, investments, government expenditures, and price levels. An exporter can also access the demographic data describing size of population, their distribution by age-category, and rates of population growth.

Furthermore, all business activities are taking place within the **political environment** which requires understanding of sub-elements such as governmental institutions, political parties, and organisations through which a country's people and rulers exercise power. The managers of an international business firm must carefully study the government structure in the target country and analyse salient issues arising from the political environment. These may primarily include the governing party's attitude toward sovereignty, people's attitudes towards foreign firms, political risk, trade wars and resultant economic retaliations, the threat of equity dilution, and expropriation.

Understanding of **legal environment** is equally important as nations are governed by force of law which includes rules and principles that nation-states consider binding upon themselves to administer. An internationally engaged firm should pay attention to both set of law, first the 'public law' or the law of nations; and international commercial law, which is evolving. Law of nations such as *Common Law*, *Code Law* and '*Islamic Law*' provides the base for evolution and framing of international commercial law.

An international business firm should also acquire knowledge of diverse **socio-cultural environment** to be successful in international trade operations. It must have

internationally trained staff, without culturally tinted-glasses, to independently study the international socio-cultural environment. International marketer explicitly recognizes the non-economic bases of marketing behaviour and its growing role in today's globalized markets. Barbie doll come not only in white colour any more, but one can find Barbie Doll having African (Black), Chinese and Indian facial features so that children from respective region can easily correlate themselves when they find someone similar. Consumption, in today's globalized but turbulent business environment is a function of many other cultural influences. Not only the disposable income of consumers but many non-economic factors can explain the different patterns of consumption of two individuals with identical incomes or by analogy, of two different countries with similar per capita incomes.

Ecologically, there is increased awareness for saving the environment and firms are reducing their carbon-foot prints to win and retain such awakened global customers. Lastly, no business firm afford to ignore the **technological environment** of the country and should accordingly adapt its product and services for varied international markets.

3.2 APPRAISING INTERNATIONAL BUSINESS ENVIRONMENT

Waves of liberalization, globalization and privatization has influenced the global trade environment so dramatically that producers, exporters and policy makers in developing countries like India are struggling to respond to emerging changes and challenges especially with reference to ever evolving trade regime which is manifested by both anti-globalization and globalization debate: For example,

- WTO agreements are aimed at reforming the trade regime and ensuring increased foreign trade activity in the world market. On the other hand, protectionist measures by USA coupled with Brexit by United Kingdom is a testimony of the challenges an international marketer has to encounter to tap the international trade opportunities.
- The proliferation of various trade agreements and ever-evolving non-tariff regime especially, the Sanitary & Phyto-Sanitary and Technical Measures have brought newer challenges on quality compliance for internationally engaged firms.
- The technological evolution under Industry 4.0 (AI/Block-Chain, IoT, Big Data Tool, etc.) has compelled the firms to change their manufacturing practices, business perspectives and marketing strategies to fulfil customer's specific business needs.
- Global pandemic has disrupted the global supply-chain. The new sourcing strategy of big retails is that of China plus One strategy, meaning big retailers are realigning their supply chain beyond China and it has provided developmental opportunities to countries in South-East Asia region.
- There is renewed focus to substitute critical imports and it has led to several measures initiated for enhancing domestic manufacturing. "Self-Reliant India" and "Production-related Incentives" in India is a testimony of it.
- Many nations are under severe debt-crisis, for instance, Pakistan, Sri Lanka, and Turkey, almost all African nations, Island nations, Central American Countries, etc. are facing a severe debt crisis and are seeking financial assistance from IMF and other developmental institutions.

- Politically, we are moving towards more dangerous world. The belligerence of People’s Republic of China, both politically and economically is a cause of concern for the entire world. China’s Debt-Trap policies are creating a fragile global economic system.

For any firm to succeed in international markets, it is important that it must appraise and assess its competitive advantages in the light of international business environment. Indian firms, both small and large should reorient their efforts on how effectively such facets of its competitive advantages can be synchronized with key features of target markets. It is difficult to analyse and generalize the factors of international business environment but a reference can be made to the following elements (Exhibit 3.1) for scanning international business opportunities.

Exhibit 3.1: Factors for Scanning International Markets

Political	Political system, Political Installation, Political ideologies of parties, political stability, political culture etc. System of government, distribution of power between national and local government culture of civil servants, government policy on business, etc. Risk, Instability, Attitudes Towards “Foreigners”.
Economic	GDP Growth, Agri Output-Growth, Size & Productivity, Level of Inflation, Per Capita Income, Disposable Incomes, Taxes, Exchange Rates, Financial Architecture, Current Account Deficit, Size of the economy, Composition of the economy, economic health, economic policies- fiscal inventory and entrepreneurial, foreign capital ,etc.
Social & Cultural	People, Demographics, Culture, Subculture, Pressure Groups, Interest Groups, Cultural life of people, rites, rituals, festivals, heritage invasion of aliem culture, business culture, roles, etc. Values, beliefs, language, religion, education, literacy, time, orientation.
Technological	Current Technological Stage, Rate of Change, Available Infrastructure For Research And Innovation, Technological orientation, Research & Development, Technology Import and absorption, technological obsolescence, etc.
Ecological Environment	Natural resources and reserves, need for protection of fragile zones, pollution control etc., the geo-graphical of a region like the terrain, vegetation cover, location, attitude, rainfall, climate, etc.
Legal	Business related laws governing competition, consumer protection, contractual obligations, regulation of foreign participation; respect for judiciary, efficiency of the same, etc.

Source: Export-Import Management, Dr. Ram Singh, Sage Books, 2020.

In the context of above, it is important for an international marketer to scan and appraise the international marketing environment before getting started or entering into any international markets. Let us now appraise these elements one by one in detail.

3.3 POLITICAL ENVIRONMENT

The political environment within a country impacts business and operation of firms. Many organizations working in countries like U.S. are used to peaceful working environment, however, this may not exist in other countries. A country's political environment influences the operation of business both domestically and internationally as politics and economics are interlinked.

Political Ideologies

Political ideologies are the ideas, theories and orientations. It is more important to know how these ideas, theories can be executed or leveraged to achieve the business goals. Many political ideologies can co-exist in a single country (for example India). Each political ideology will have its own pressure group each balancing its ideologies with another, as a result, a political system remain stable among varying and sometimes conflicting ideologies.

There are three kinds of alternate ideologies. These are:

- 1) Pluralism (Political philosophy)
- 2) Totalitarianism (totalitarian rule)
- 3) Democracy (Mix of pluralism and totalitarian rule)

Impact of Difference in Political Ideologies on Country's Boundaries

Differences in political ideologies are due to differing history, culture, language, religion, geography and polity which defend the boundaries of two nations. Bigger nations or regions split into smaller states when political system collapses (e.g. USSR).

To understand the political environment better; let us now discuss the various forms of government. These are as follows:

Pluralism: Pluralism is a political philosophy which is based on the assumption that people of different beliefs, backgrounds, and lifestyles can coexist in the same society. Furthermore, all people can participate equally in the political process and can practically be part of decision-making mechanism to contribute to the "common good" of the entire society. Scandavian countries are examples of pluralism which have political system in place to accept and integrate the minority groups whether religiously, culturally, by gender and even by orientation.

Totalitarianism: Totalitarianism is an extreme form of political system wherein there is one authoritarian political party. Moreover, the political system prohibits all opposition parties, outlaws individual's rights, and places state authority to all, undermine civil liberties, free press, and right to organize. The system exercises very high degree of control of public and regulate their public as well as private life. For example, North Korea and China are examples of extreme and complete form of totalitarianism and authoritarianism.

Democracy: Multi-National Corporations prefer to locate their business operations in democratic countries. The prime reason for this is that democratic norms usually provide freedom especially economic-freedom and legal rights which safe guards the

interest of individuals as well as business institutions. Political system of democracy has following six features:

- i) freedom of speech and expression of individuals and press and freedom to organize;
- ii) elections in which voters elect their representatives;
- iii) officials are elected for a mandated term;
- iv) an independent judiciary which safeguards individual's fundamental rights and legal right to own property;
- v) bureaucracy and armed forces/military establishments are non-political institutions; and
- vi) access to decision-making process.

Influence of Political System on Management Decision Making

A) Any business firm in international market is exposed to various types of political risk because of being a part of different political system. Political risk occurs when the political climate within a country is not favourable for the international companies to operate.

- 1) **Causes and Types of Political Risk:** There are various types of political risk which can create obstacles in the operation of a company e.g. government takeover of property, frequent strikes and lockouts which hamper company's performance and operating performance. Such problems can arise due to radical changes in the political philosophy of country's leadership, leading to civil disorder and breakdown of relationship between the home country and host country government, for instance, Russia-Ukraine relations in 2022.
- 2) **Macro and Micro Political Risks:** When political actions are aimed at particular foreign investment company they are regarded as micro political risks. For instance, India restricted foreign investments without government approvals from countries with which it shares borders, primarily to restrict hostile investments from China, post Ladakh military standoff in 2020. On the contrary, if they are aimed at large section of foreign investors they are considered as macro political risks.

B) Extent of Government Intervention in the Economy

Government's intervention in the economy varies from "individualistic intervention" i.e. minimum interference to "communitarian intervention" i.e. maximum interference in economy. Usually companies prefer centralized bureaucracy with a stable political party. If a U.S firm moves from its home country (individualistic) to host country like Germany, South Korea, and Turkey (communitarian) it will have to develop new strategies for its stakeholders namely government, customers, suppliers and competitors.

Designing and Implementing Political Strategies

There are certain steps which a company needs to follow to establish its business operations within the prevailing political climate of a country.

The steps include the following:

- i) Shortlist the specific issues confronted by the company like trade restrictions, rights of workers.

- ii) Identify the political aspect of the issues especially the one's which can be dealt from outside the political intervention.
- iii) Examine how competing companies can influence political system in their favour or against their company.
- iv) Assess the role played by important individuals and institutions in the target country's political system.
- v) Assess the impact of firm's planned strategies on firm's image.
- vi) Accordingly, determine the appropriate strategy and execute it.

3.4 ECONOMIC ENVIRONMENT

There are 193 countries in the world and vary significantly in the level of economic development. A prominent question that a Multi-National Corporation (MNC) faces is that in which of these countries it should expand? Two important considerations that would guide an MNC are: first, the ease of access to factors of production (e.g., raw material, labour, etc.) and second, the demand conditions (size of market, market growth rate, and so on). To understand the economic environment, it is important to understand how the countries of the world are classified.

The countries of the world can be classified based on different aspects namely income, region, economic system, etc. Exhibit 3.2 shows the classification.

Exhibit 3.2: Economic Environment

Based on Economic System	Based on Income	Based on Region
<ul style="list-style-type: none"> • Free • Mostly free • Mostly unfree • Moderately free • Repressed 	<ul style="list-style-type: none"> • Low income • Lower middle income • Upper middle income • High income 	<ul style="list-style-type: none"> • East Asia & Pacific • Europe & Central Asia • Latin America & the Caribbean • Middle East & North Africa • South Asia • Sub-Saharan Africa

A) Classification based on Income

Based on income; the countries are usually classified by their GNP or GDP per capita. GNP stands for Gross National Product and GDP for Gross Domestic Product. GNP is the total value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens (including income of those located abroad). It excludes income of non-residents located in a particular country. GDP includes the total value of the economic activity within a country's borders regardless of whether that activity is a result of foreign or domestic investment. Gross National Income (GNI) per capita is the amount of economic activity per citizen of a country in a year. The World Bank Report 2011 classifies economies into the categories shown in Table 3.1 on the basis of GNI per capita.

Table 3.1: GNI per capita, 2020

Low income	\$1045 or less
Lower Middle income	\$ 1046-\$4,095
Upper Middle income	\$4,096 - \$ 12,695
High income	\$12,696 or more

Source: data.worldbank.org/about/country-classifications (retrieved on February, 13th, 2022).

B) Classification based on Region

The various regions and their classifications are important to Multinational Corporations. The MNCs scan these markets along the geographic lines to design and structure their organizations and also to analyze the contiguous zone for marketing of their goods. Additionally, the logistics operations are also planned based on geographic regions. Respective regions also reflect the developmental status of such economies.

C) Classification based on Economic System

Economic system is the system of production, distribution and consumption which can be placed on a continuum from “free” to “repressed.” The current break down is detailed in Table 3.2.

Table 3.2: Countries Classified on the basis of Economic System

Categories	Number of countries	Examples of countries
1) Free (80 & above)	5	Singapore, New Zealand, Australia, Switzerland, Ireland
2) Mostly Free (70-79.9)	33	Taiwan, UK, Estonia, Canada
3) Moderately free (60-69.9)	59	Spain, Bahrain, Poland, Thailand
4) Mostly not free (50-59.9)	63	India, Bangladesh, Kenya, China, South Africa
5) Repressed (under 50)	18	Iran, Surinam, Burundi, Algeria, Sudan

Source: Index of Economic Freedom, Heritage Foundation, 2021, Accessed on February, 13th, 2022.

D) Classification based on Types of Economies

There are basically four types of economies viz- a-viz.

- 1) **Market Economy** - is the type of economy where economic resources are owned and controlled by the private sector. They are owned by private enterprises and not by Government or public sector, for example, U.S.A., U.K.
- 2) **Command Economy** - Here the economic resources are owned and controlled by the government or public sector. The central government of a country on the basis of Central Plan determines the production and processing of goods and rendering of services, for example, China, and USSR before disintegration into Russia, and other countries.
- 3) **Traditional Economy** –In this case; the economic decisions are based on the age-old customs and beliefs followed by generations, for example, many parts of African Countries, especially the tribal regions.
- 4) **Mixed Economy** – Most of the countries under Mixed Economic Model follow a combination of above three types of economies. Such countries have characteristics of both; private and public sector’s ownership and control, for example, France and India.

Main Economic Challenges for the Economies

In a macro economy, there are various undesirable situations which used to exist due to lack of fulfilment of one or more macro-economic goals. Key macro-economic challenges faced by large number of economies in the world are:

- 1) **Unemployment:** This is one of the major macro-economic issues which is becoming quite prominent throughout the globe. This arises due to the following two factors:
 - a) The output produced is less than the input because of which the economy is not able to solve the problem of scarcity.
 - b) The income received by the owners of unemployed resources is less because of which they have lower living standards.
- 2) **Inflation:** Inflation arises due to the continuous and persistent increase in the average price level in an economic system. Conceptually, inflation is defined as “*too much money purchasing too few goods/price*”. It is situation where demand is more and supplies are less and resultantly an economy is unable to attain the goal of economic and political stability.
- 3) **Business Cycle:** Unemployment and inflation lead to instability in the business cycle. Both these macro-economic issues affect the business cycle in one way or another. The contraction and expansion phases of the business cycle are affected leading to unstable conditions.
- 4) **Stagnant growth:** In a common parlance; stagnant growth means that the growth has slowed down at a particular point of the business cycle. This issue arises when the supply of aggregate production does not increase at a desired pace. In certain cases, it tends to decline as well.

Activity 1

Consider and obtain the data for BRICS countries and assess how they have been able to perform on various economic indicators in the post-pandemic period:

BRICS Countries	Brazil	Russia	India	China	South Africa
Economic Indicators					
1) GDP Size					
2) Per-Capita Income					
3) GDP Growth Rate					
4) Total Foreign Exchange Reserves					
5) Balance of Payments Surplus/Deficit					

6) Total Exports for current year					
7) Total Imports for current year					
Remarks about the country					

3.5 SOCIAL AND CULTURAL ENVIRONMENT

In the new global environment; cultural awareness about other countries is essential for the managers. This is a critical issue and any ignorance of cultural sensitivities will lead to dire consequences which would even jeopardize business transaction. Before proceeding on overseas assignment, the managers should do their homework, i.e. acquainting themselves a bit about the foreign cultures. This could be done by undergoing a short course in foreign language, cross cultural training, familiarizing themselves about specific business etiquettes and practices. One can do so through cultural guides thus avoid mistakes.

Cultural Identification and Dynamics of Cultures

There are certain ways by which a manager can understand the dynamics of different cultures.

- 1) **Nation as a Point of Reference:** Cultural differences exist usually between nations due to different cultures, customs, beliefs, values and faiths. Thus, it becomes essential to compare differences in national cultures to understand and appreciate specific cultural nuances.
- 2) **Dynamics and Cultural Formation:** Cultures are imbibed by children from their parents in early age. Culture and value systems are also inherited from one generation to another. There are cultural changes over time due to a variety of reasons such as greater exposure to foreign cultures, shifting from one area to another, acquaintances with people of foreign culture, foreign media, etc. If a change in a country's culture is due to forceful imposition of foreign nation's culture it is known as cultural imperialism.
- 3) **Language creating Cultural Stability:** Culture can be identified in terms of language spoken, such as French, English, etc. The people speaking the similar languages in an area, are likely have similar cultural attitudes. Many countries have diverse cultures because they have different languages spoken within their borders.
- 4) **Religion creating Cultural Stability:** Religion followed by people of a country also reflects its cultural values thus affecting its business practices. The holidays, working hours, food habits, religious practices and lifestyle, etc. have its influence on culture of a country.
- 5) **Cultural-Oriented Social Practices:** A Manager should be aware of the cultural-oriented social practices as they influence business in international markets.

Social Stratification

A society can be stratified on the basis of varying cultural values. A person can be ranked on the basis of his 'birth' or on the basis of 'achievement', political affiliation, religion or other factors. Social stratification may influence the determination of target market, human resources policies and practices and other similar activities.

Following cultural characteristics influence person's social ranking.

- 1) **Merit as basis of selection:** In many advanced countries, the basis of selection or promotion for a job is the merit or competence. This creates healthy competition in the working environment as each employee has opportunity to compete based on his/ her performance. In Japan, seniority has greater say in promotion decisions as experience is valued in management positions. It may sometimes lead to lower competition in performance and even dissonance among junior employees.
- 2) **Groups based on Gender:** Different countries have different social perception or orientation to think towards males and females in society. In this regard; we can quote Political Risk Insurance (PRI) case of Middle-East and other Muslim-majority countries. This is how Islamic laws postulate, perceive and view the role of women in the society. The Islamic clergy prohibit the women from attending school and working in offices also and even participating in the workforce, for instance, Afghanistan, Sudan and Saudi Arabia. The things are changing partially and slowly, at least for Saudi Arabia in the recent years.
- 3) **Groups based on Age:** In many countries, age is associated with experience and wisdom. The superannuation of workforce is fixed on the basis of age i.e. 60 or 65 years. Many companies prefer young employees and accordingly fix the age of service as these organizations require young and dynamic workforce.
- 4) **Groups based on Family:** In some societies, instead of individual's achievement, it is the family's social status which determines the position in the business. Recently, family owned businesses are gaining importance where non-family members find it difficult to move-up in the managerial hierarchy-ladder.
- 5) **Source of Livelihood:** People select their source of livelihood or occupation on the basis of economic and social prestige attached to certain occupation. In some countries, professionals from teaching stream are given greater importance than business professionals. While in other societies, people opt to become Doctors or Engineers on the basis of prestige attached to jobs of science discipline.

Strategies for Coping with Cultural Differences

Different countries have different cultures and accordingly appropriate strategies should be devised by managers to deal with cultural differences.

- 1) **Making Slight or No Adjustment:** The managers of an internationally engaged firm need to slightly adjust with the people of varying cultures. On the other side, some cultures which allow greater freedom to foreigners than their own people require less adjustment. Region-wise cultural similarities may

also exist, for instance, such cultural similarity exist between Argentina and Uruguay. The workforce of the firm in such kind of countries can easily adjustment culturally if the firm expand and diversify to such similar country.

- 2) **Communication:** Cultural differences can be handled with the help of effective communication. Communication includes both oral and written components and also sign language.
- 3) **Oral and Written Language:** Communication problem exists between countries due to differences in language. It is difficult to find an exact meaning and interpretation of words between two different languages. For example, over 4000 words in English are spelled differently and have different pronunciation and meanings between United States and United Kingdom.
- 4) **Silent Language:** Non-verbal cues such as the kinesis and proximities (body movement) like gestures, postures hap-ties (touch), para-language (emotions), colour preferences, can be described as “silent language”. Silent language like standing too close or too far, or wrong body language can be misinterpreted and can ruin an important business deal.
- 5) **Cultural Shock:** When an employee leaves his own country and settles in a new country, he has to cope-up with different cultural cues and language(s). Accordingly, the cultural training programs are organized by companies before employees depart for the foreign assignment. Employees also come-across reverse cultural shocks when they return to their home country after having completed a foreign assignment.

Activity 2

Scan the respective website(s) and find-out how the following brands have used the language(s) for their product packaging/marketing:

- i) Coca Cola
- ii) Colgate
- iii) Maggi

What do you think are the reasons behind these differences in language(s) used in some countries while retaining standardized approach in other countries?

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3.6 TECHNOLOGICAL ENVIRONMENT

Technology has been one of the biggest factors that has affected modern business. Two facets of technology are particularly noticeable. One is the speed of communication

and the second is the reduction in the cost of technology. Let us first discuss about the speed of communication; you will notice that the cost of communicating has now become a fraction of what it used to be two-three decades back. More so, the communication landscape has witnessed a complete transformation with newer and smarter tools, email, WhatsApp, Zoom Call, Google Meet, along with introduction of various product software like MS-TEAM and WEBEX. The technological leapfrogging in internet technologies has facilitated the growth of seam-less and cost-effective communication around the world. Figure 3.2 as under illustrates the number of internet users worldwide in the period 2006-2020.

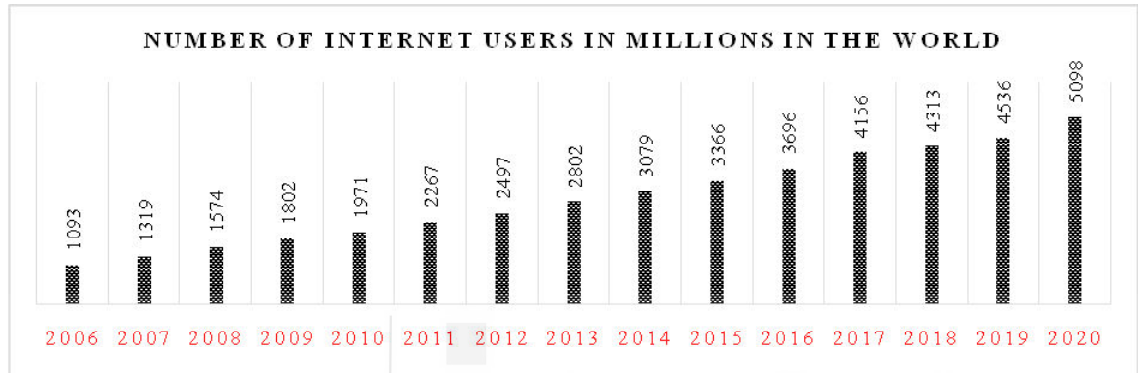


Figure 3.2: Number of Internet Users in the World (in Millions)

Source: Internet World Stats, accessed on February 13th, 2022.

Thus, it will be seen that the internet user population world over is almost doubling every 3-5 years. The spread of internet users is varying with highest penetration in North America and lowest being in the African countries. India has 3rd largest number of internet users in absolute terms, only next to China and the USA but in terms of internet penetration, it is mere 64% in India as compared to 95% in the United States of America and 83% in People’s Republic of China. The Figure 3.3 as under depicts the growing internet penetration in the world population.

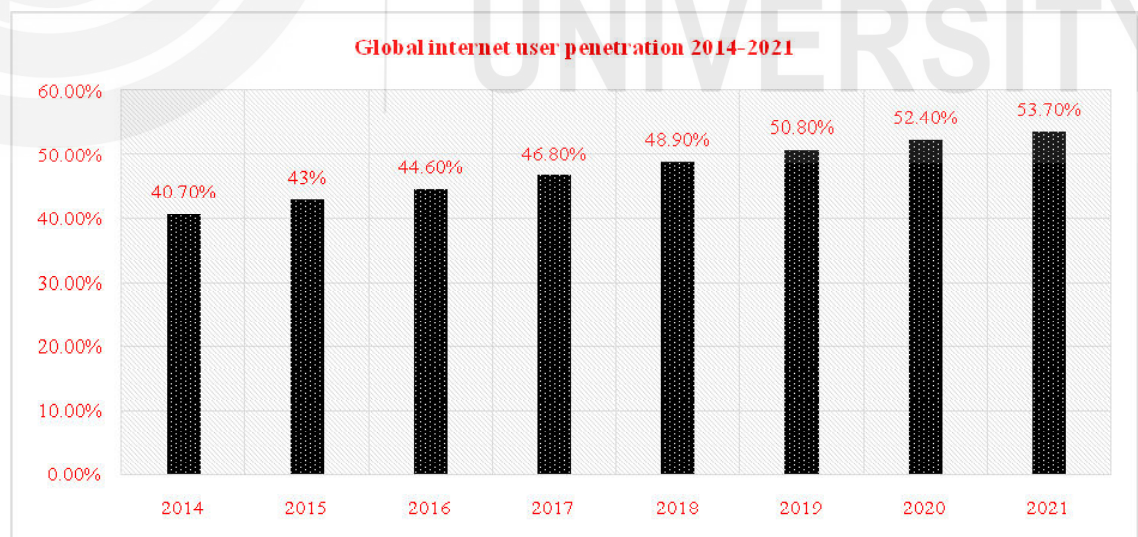


Figure 3.3: Global Internet User Penetration 2014-2021

Source: Statista, accessed on February 13th, 2022.

The world economy is witnessing a manufacturing transformation with new technological innovations such as 3D Printing, Artificial Intelligence, Bar-coding/ Automatic Identification, Big Data, Block Chain, Cloud Computing, Computer Aided Design

(CAD), Embedded Systems, Enterprise Resource Planning, Flexible Manufacturing Systems (FMS), Internet-of-Things (IoT), Machine Learning, Radio Frequency & Identification (RFID), Robotics, Sensor Networks, and Wireless Communication, etc. These technologies are redefining the up-stream, horizontal and downstream supply chain of firms. Technology is leveraged by firm to win customers and competitive markets.

Technological innovations are frequent resulting in changes in strategic business planning of international business firms. Organizations are faced with the need to secure a dominant market position despite entry and business operations costs in the beginning are too high. Companies are going in for joint-ventures to get started and seek synergies in their capabilities and areas of strengths to succeed in international markets. The implications of changing electronic communications and technological developments on international business are enormous but the need of the hour is to innovate constantly for sustainable competitive advantage. Table 3.3 summarizes the effects sequentially to enable you to grasp the effects.

Table 3.3: The Global Challenges of Changing Electronic Communication

Challenge	Response
1. Speed of change	Shorter planning cycles, leading to effective planning processes, faster product innovations and marketing
2. Information and Communication Technology (ICT)	More options for market entry resulting in new ways of communication with the market and effective distribution of goods and services
3. Internet and interactive media	More E-Commerce and e-business options with interactive media result in changing the ethos of the marketing strategy.
4. Market and organization structure	Ability to come to terms with, and respond to, electronic markets, virtual markets, border less organizations, virtual organizations, outsourcing, resulting in flatter organizational hierarchies, and symbiotic alliances with external partners
5. High start-up and innovation costs	Partnering and alliances
6. Rules of competition	Be 'first' to form alliances and continuously innovate to sustain the market position
7. Disintermediation	Either 'go with the flow' (become average) or find new ways to compete (excel)
8. High risk of failure	Devise an effective marketing and electronic strategy bearing in mind the long term horizon
9. Monetary transaction security, piracy	Ensure 'electronic key' is in place and ensure that appropriate legal norms are followed
10. Possible transaction breakdown	Ensure e-marketing strategy is in place including fulfilment requirements

Source: Adapted from Global Marketing Management by Kiefer Lee and Steven Carter, Oxford University Press (2009).

Technology therefore can either be ‘constructive or destructive’. Technological developments should aim at innovating and introducing changes which improve the quality of products and customer services along with leading to better quality of life to the mankind.

3.7 ECOLOGICAL ENVIRONMENT

Ecological issues have received world-wide attention. The unsustainable industrial planning, growing developmental requirements coupled with ever-increasing size of global population is leading to several ecological changes which have its harmful effect on the environment. In this context, the major factors responsible for degradation of environment have been reckless industrialization, deforestation, traffic congestion, population, system-failure in civic planning and illiteracy.

The production of industrial goods such as air-conditioners and refrigerators has led to excretion of harmful gases known as Chloro-Fluoro Carbons (CFCs) causing ozone-layer depletion. This has led to weather and climatic changes. The wastes discharged by industries have caused air, water and soil pollution. Effective waste management and effluent treatment is now being practiced by various business houses. The family-owned businesses or even corporate houses, no more, enjoy the monopoly on their business decision making and there are stakeholders such as managers, workers, suppliers, distributors, consumers, government officials, who have their say in business planning vis-à-vis environmental ill-effects of established and even proposed industries. As a result it has been felt that business should be socially responsible. In order to preserve environment, companies have developed following policies and practices. These are designed to integrate ecological issues, having its impact on environmental concerns, in their business strategies.

- i) preserve and promote pollution-free and green environment;
- ii) support renewal energy resources in the industrial uses;
- iii) protect and preserve the fauna and flora especially endangered species;
- iv) reduce and reuse waste and if not possible recycle it;
- v) follow domestic and international regulations related to environment and pollution;
- vi) encourage manufacturing of energy efficient products;
- vii) achieve sustainable development by allowing markets to work within an appropriate framework of cost-efficient regulations;
- viii) promote effective corporate governance by application of best management practices, adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders;
- ix) corporate efforts to create the environment awareness campaign;
- x) study the ecological and environmental impact of products over their entire life cycle;
- xi) introduce incentive schemes for good environmental practices;

- xii) contribution to ecological and environmental institutions such as Global Compact and the World CSR.

Activity 3

Analyze 'The Global Compact' and identify the World Economic Forum in which the call for embracing and enacting it was given.

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3.8 LEGAL ENVIRONMENT

There are different dimensions of legal environment prevailing within a country and its resultant impact on the firms engaged in the business.

A) Types of Legal Systems

Common law: Laws are based on tradition, previous precedents and customs (e.g., United States, United Kingdom, etc).

Civil law: The legal system is based on a legal code which is a detailed set of laws (e.g., France, Germany and Japan).

Theocratic law: The legal system is based on legal precepts (e.g., Iran).

B) Safeguards for Consumers

International firms have to often face product liability issues as a major challenge. Law protects consumers who spend their hard-earned money on purchase of products of international firms. These safeguards protect consumers in case the quality of the product is not up to the mark. Consumer Protection Act in different countries provides for filing of 'product-liability case' by the consumers and offers him/her compensation if proven so.

C) The Legal Profession

The international firms, before starting an international venture, usually hire a legal service firms in other countries. They need the services of lawyers or law firms for understanding the business contracts and protecting intellectual property rights.

D) Legal Issues related to International Business

Laws influence various aspects of international business. Laws which affect working environment vary from country to country (working hours, minimum wage level, length of weekdays and weekend). Laws also govern cross-border activities such as import duties, foreign investment regulations, etc.

E) Ethical and Legal Dilemma

“When you are in Rome, do as the Romans do” is the best approach in dealing with ethical issues globally. Merely abiding by the host country’s laws will not fulfil one’s ethical responsibilities because of following reasons:

- All unethical issues need not always be illegal
- Slow development of laws in emerging areas of concern
- Moral concepts must be studied in the light of legal provisions
- Laws need to be examined by judiciary
- The law need not always be efficient.

No law in the world can resolve all ethical disputes. It however, can serve as a guide in many cases. Sometimes, examining the potential liability and legality of actions becomes difficult as different countries practice different kinds of law, common law, civil law and Islamic law etc. Civil laws assess the legality of various behaviours while common law emphasizes more on cases and precedents than on statutory regulations. The law of land will apply where business operations are located unless agreed otherwise between the business parties, for instance, companies prefer to resolve their disputes through arbitration and that even in an International Court of Arbitration, located in countries like Britain and Singapore where legal redressal system is prompt.

Activity 4

Assume that you are employed in an international firm in India and that your firm is interested in expanding its business in one of the countries, out of the group of countries known as newly emerging market economies. You have been asked by your employer to conduct ‘economic, social, political and legal risk assessment’ of that country so that your firm could take a decision. How would you proceed and which country would you like to choose? Make a brief note of the reasons for your choice and the assessment of the risks involved.

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3.9 SUMMARY

The analysis of political, economic, social, technological, ecological and legal factors, in short known as PESTEL analysis, is crucial to international business. For countries as well as global organizations these factors are important and must be evaluated, especially when evolving business environment is volatile, uncertain, complex and ambiguous (VUCA).

This unit, following PESTEL constituents in the order or sequence in which the abbreviation appears, discussed political, economic, social, technological, ecological and legal factors; and how they could affect international business. An understanding of these factors is imperative for any manager who is concerned with international business.

Some of the key points under economic factors included classification of countries on the basis of income, region and economic systems. With the advent of 21st century and several associated economic developments, the economic systems of many countries have changed. The rapid transformation of China, Brazil, India and Russia from a developing to emerging economies has far reaching implications for multinational corporations. Also with increasing regionalization of economies the imperatives are now even broader. In the units that follow there will be discussion on Trade Blocks, a sort of Union formed by countries due to their geographical proximity and in some cases due to the similarity in the pattern of their economies or their economic history or economic growth.

The unit discussed the key concepts aimed at understanding the elements of international business environment. These concepts help a participant to understand the economic, political, socio-economic, ecological, technological and legal issues that an internationally engaged firm should factor while entering into international markets.

For any multinational company it is important to identify a country's culture and its underlying dynamics. Culture is always the invisible hand of the society which tends to be present in watermark but practicing managers can never ignore it.

The culturally-oriented social behaviours affect business. It is therefore, necessary for an international manager to understand a country's social stratification process, motivations of its people, relationships, preference about risk taking, etc. How companies deal with cultural differences and what strategies they adopt to deal with them makes the difference.

Making internal adjustments, studying aspects of communication, adopting right management orientation, including seeking local expertise, and finally institutionalizing the processes are critical to organizations wanting to succeed in international business.

Political environment of a country affects international business. It is imperative for an MNE to understand the dominant political ideology prevalent in the country, and the impact of such ideology on management decisions. In the contemporary scenario, organizations have to devise mechanisms to gauge the political tone and tenor. In a country like India, political ideologies are the key to doing business.

Ecological Factors refer to preservation and promotion of green and pollution free environment. This also includes adopting the manufacturing practices of eco-friendly products.

Legal environment in a country is also critical to international business. With increasing complexities, aggressive takeovers, mergers or acquisition, what it means is that the organizations have to make it sure that all the possible legal issues are taken care of before an action is initiated. Meeting the requirements of a foreign country's legal environment and defending legal suits are difficult and have cost implications. It is said that in U.K. the cost of hiring a lawyer may at times be more than the total export consignment under a legal dispute. Especially for small or medium exporters it becomes tough.

3.10 KEY WORDS

Market Economy	:	An economy in which resources are primarily owned and controlled by the private sector.
Command Economy	:	An economy (also known as a centrally planned economy) in which all dimensions of economic activities including pricing and production decisions are determined by a Central Government Planning Commission. In other words, the government controls all resources.
Mixed Economy	:	An economy where the government and private enterprises have equal opportunity to operate.
Social Stratification	:	The division of society into various strata. Every culture values some people more highly than others and determines a person's ranking (or social stratification).
Culture Shock	:	A severe frustration born from experiencing a new culture and trying to cope with a vast array of new cultural cues and expectations.
Polycentrism	:	An approach of doing business in host country according to host country's practices.
Ethnocentrism	:	Applying the practices in one's own country to the host country.
Geo-centrism	:	The approach which believes in imbibing and practicing the best business practices from the world.
Common Law	:	Laws based on tradition, precedents, and customs in that country.
Civil Law	:	Legal system based on a detailed set of laws that make-up a code for the country to govern.
Theocratic Law	:	Legal system based on religious precepts.

3.11 SELF-ASSESSMENT QUESTIONS

- 1) What are the key elements of International Business Environment of a country?
- 2) Discuss the key macro-economic issues that affect business strategy.
- 3) What are the cultural factors that influence business? Discuss in detail.
- 4) What are some of the problems that companies face when they misjudge the cultural leanings of a country? Explain with relevant examples.
- 5) What are some of the legal elements to consider for a MNC while venturing in newer markets?
- 6) What are the major factors to be considered in evaluating political environment in a country? Discuss how such factors could affect international business?

- 7) Evaluate how technology has affected our lives over the last decade in terms of its influence on products or services, citing suitable examples.
- 8) How can MNCs capture and evaluate the importance of and make a response to changes in the global marketing environment?

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