1 Introduction to International Business

This Chapter Includes

- Business
- International business
- Drivers of international business
- Benefits of international business
- Scope of international business
- Difference between domestic and international business
- Globalization
- Meaning of globalisation
- Benefits of globalisation
- Criticisms of globalisation
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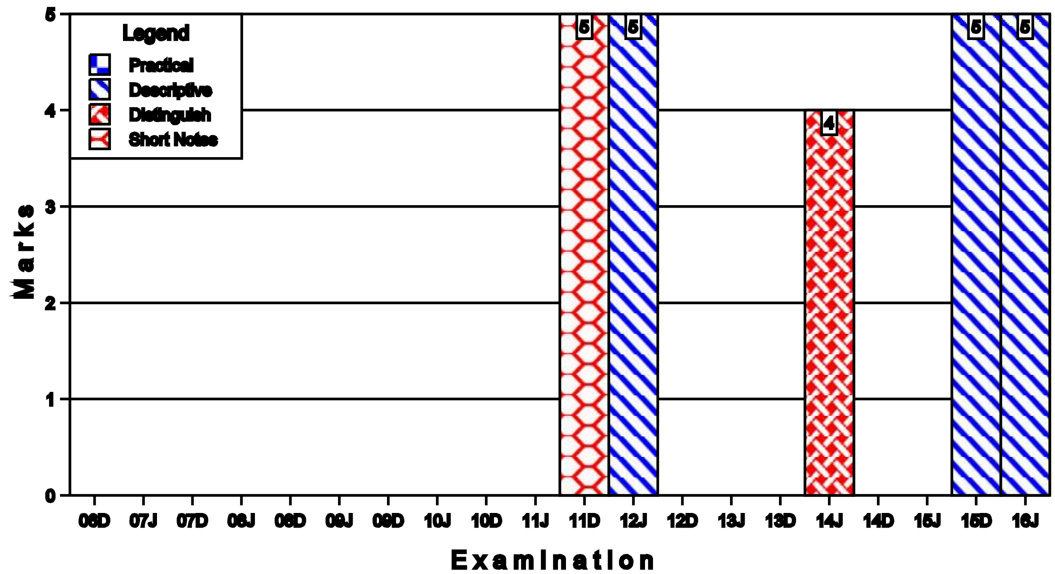
- Risks in global business
- Issues in global business
- Globalisation and international trade
- Globalisation and financial markets
- Globalisation, income inequality and poverty
- The future of globalisation
- Needs to go global
- Modes of entry and operation in International Business

Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



Questions of May 2007 are from PCC Gr. II and from June 2009 onwards are from Professional Programme New Course.

SHORT NOTES

2011 - Dec [3] Write note on the following:

(v) Risks in global business. (5 marks)

Answer:

Risks in Global Business: Global Business has some additional risks besides the usual business risk which are of the following types:

(i) **Political and Regulatory Risks:** Many countries of the world are not politically stable and transfer of political power does not happen in smooth ways in these countries. Therefore, companies doing business in these countries may have risk in new political regimes. Similarly, many countries have different types of regulations for doing business. Such regulations may be of quite different nature as compared to those prevailing in the domestic country. Therefore, the regulations of the host countries should be taken into account.

(ii) **Cultural and Managerial Risks:** Countries differ widely in terms of cultural characteristics like customer preferences and tastes, attitudes towards certain types of products/services, transitions, values and beliefs, and a host of other cultural factors. Therefore, products/services have to be tailored according to such requirements. Further, since management practices are culture - bound, the kinds of management practices which are effective in the domestic country may not be suitable in foreign countries. Therefore, there is a need for suitable change in management practices, more particularly related to human resource aspects.

DISTINGUISH BETWEEN

2014 - June [2] (b) Distinguish between the following in brief:

(i) 'Global strategy' and 'international strategy'. (2 marks)

(ii) 'Indirect exporting' and 'direct exporting'. (2 marks)

Answer:

(i) **Global Strategy:** In global strategy, assumptions are made that customer needs are similar worldwide. It is argued that markets are converging and increasingly people's needs and desires have homogenized. Therefore, firms can sell standardized products in the same way everywhere, for example, steel, pharmaceuticals, cement, petroleum, etc.

International Strategy: In the initial stages of globalisation, a firm may not be in a position to opt for either global strategy or multi domestic strategy for its overseas business. They adopt international strategy which involves creating an international division and exporting the products through that division to those countries where the products are needed. At this stage of globalisation, a company is really focused on the domestic market and just exporting what is demanded abroad.

Answer:

(ii) **Indirect Exporting:** Indirect exporting is exporting the products either in their original form or in the modified form to a foreign country through another domestic company. It is the market entry technique which offers lowest risk & least market control. The firm is not engaged in international marketing and no special activity is carried on within the firm. The sale is handled just like domestic sales. Various publishers in India including Himalaya Publishing House sell their products i.e books to UBS publishers of India, which in turn exports these books to various foreign countries.

Direct Exporting: Direct exporting is selling the products to a country directly through its distribution arrangement or through a host country's company. Baskin Robins initially exported its ice-cream to Russia in 1990 and later opened 74 outlets with Russian partners. Finally in 1995 it established its ice cream plant in Moscow.

DESCRIPTIVE QUESTIONS

2008 - Nov [8] What is meant by a Global Company? Explain briefly different strategic approaches for Globalisation by a Company. (4 + 6 = 10 marks)

Answer:

In simple economic terms globalization refers to the process of integration of world into one huge market. At the company level globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and (b) it also means ability to compete in domestic markets with foreign competitors.

A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market minimizes the importance of national boundaries. A global company has three attributes:

(i) It is conglomerate of multiple units located in different parts of the globe but all linked with common ownership.

(ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.

(iii) The units respond to common strategy.

Strategic approaches:

International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm/company which wishes to go global will be guided by the following four types of strategies:

(i) Multi-domestic strategy: A multi-domestic strategy focuses on competition within each country in which the firm operates. This Strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries.

(ii) Global Strategy: A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services and controller by the home offers.

(iii) Transnational Strategy: Many large multinational firms particularly those with many diverse products, may use a multi-domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi-domestic and global strategies. Thus there is emphasise on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

(i) Exporting
(ii) Licensing/Franchising
(iii) Joint Venture
(iv) Foreign Direct Investment.

2012 - June [3] (c) Discuss in detail the reasons that prompt the companies for doing business globally. (5 marks)

Answer :

Reasons for doing business globally.

The reasons are as follows:

(1) Market saturation
(2) Foreign competition
(3) Trade deficit
(4) New markets
(5) Saving in costs
(6) Business adversities
(7) Utilise full capacity
(8) Avail product technology, raw materials etc.
(9) Developing and Testing new products.

2015 - Dec [4] Licensing seems to be a fairly safe way for a manufacturer to produce in a foreign market for the first time. Comment. (5 marks)

Answer:

Licensing is a common method of international market entry for companies with a distinctive and legally protected asset. It involves a contractual arrangement whereby a company licenses the rights to certain technological know-how, design, patents, trademarks and intellectual property to a foreign company in return for royalties or other kinds of payment.

"Licensing seems to be a fairly safe way for a manufacturer to produce in a foreign market for the first time." This seems to be true to some extent as Licensing is widely considered as another form of "safe" market penetration as it builds and strengthens the brand image beyond traditional boundaries without much involvement of the brand owner and still builds value. It is also a safer avenue for the customers in foreign country to acquire authorized rather than illegal or unauthorized products using the brand name, marks and logo. It also generates additional revenue through venturing in foreign country while protecting the trade marks.

2016 - June [2] (e) Birju, entrepreneur, a traditional handloom manufacturer of Varanasi, is desirous of international expansion. The entrepreneur has little knowledge of international markets. Which mode of entry should be adopted by him? Give reasons. (5 marks)