

PART I

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Excerpt
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The International Business Imperative

LEARNING OBJECTIVES

- To recognize the nature and the historical shifts of international business
- To learn the definition and impact of international business
- To evaluate the impact of international business
- To identify the relationship between international business and emerging markets using theoretical, political, and strategic aspects
- To appreciate the opportunities and challenges offered by social engagement to international business
- To analyze opportunities and challenges of international business

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VIGNETTE 1 Resilience in the face of a global pandemic

Coronavirus is the firing pin for major new innovation in education. To address the need of the hour during the crisis, universities are orienting their staff toward greater use of technology. For faculty members, it is a distance-learning alternative tool. But in many instances the faculty is very much dependent on technology learning from students rather than the traditional reverse flow. For the Higher Education sector, if one could calculate travel time of professors and their students, the time taken by them to travel would be higher than for professors to deliver rapidly while also fulfilling functional aspects of their work. There are still the stepwise rising rows of chairs, the black or white boards to communicate information, and a professor up front, while students take notes or raise their hand. What will happen to office hours, or the distribution of exams?

Any changes to a traditional module delivery model requires consideration of approval by at least four faculty committees, each one of which needs substantial time to investigate the impact and potential repercussions of alterations. Then there are reviews by board members, insights from administrators, and the “Fingerspitzengefühl,” or financial liaison. Woe to the planner of change who is likely to encounter a lead time of what seems like forever. The bottom line: change in education is hard to achieve.

How has the education system performed under virus conditions? Because of the danger emanating from the virus, we can see high degrees of rapidity, focus, transparency, and adaptation, which will lead to significant changes. Students, by the tens of thousands, are moving their main residence within a week. Faculty members have, within the same time, solidified the course materials and are preparing to deliver the content under entirely new conditions. Simultaneously, administrators have to rapidly find ways to work with incensed students and parents.

Also, remember that once the toothpaste has left the tube it won't go back in, and leads to totally different uses and expectations. All these sweeping changes, if considered for long-term contemplations, must be considered within a new kind of framework with an extended term time of about 10 days to 2 weeks. Coronavirus has pushed everyone to look for a way to cope with complexity at an extraordinary speed. The innovative methods of delivery that will finally be accepted are expected to pump new energy and strength into the body of university politic. The best in fusion is yet to come.

It is important to remember here that societies at different time periods have had their own changes, some without much benefit, such as bubonic plague and the great influenza epidemic. Other changes triggered much disruption in society

but were very beneficial, such as the printing press of Gutenberg, electricity by Edison, and airplanes by the Wright brothers.

The current virus effect may lead to adjustments which will provide new approaches, unexpected adaptations, and a much wider field of options. There will be new playing fields, new players, and new rules. The post viral times might not necessarily be convenient or tranquil, but there will be many more opportunities for innovation and creativity. Resilience is key in the face of a challenge, and resulting spill-over effects from coronavirus mitigation efforts may well lead Higher Learning into a newly successful future.

Introduction

The nature of business is constantly changing, as the opening vignette shows. Expectations and capabilities adapt to the new business landscape, both with its barriers and opportunities. International business has become the norm for most countries and their companies, as they delight in the new markets discovered away from home. Since the 1950s, the growth of international trade and investment has been substantially larger than the growth of domestic economies. The current landscape for international trade and investment has evolved into a highly dynamic place with changes in global trade architecture, global value chains, and global trade opportunities offered by a digital economy. Technology during the digital era continues to increase the reach and the ease of conducting international business, pointing to even larger growth potential in the future. International business drives the flow of ideas, services, and capital across the world. As a result, innovations can be developed and disseminated more rapidly to firms working as partners in a global value-creation process (Cantwell, 2017; Silva et al., 2017). Although the increase in the development of the digital economy has contributed positively to the context, cybersecurity remains a threat to both buyers and sellers across national boundaries. Simultaneously, a decline in both volumes and prices of products being exported accounts for an increased focus on reforms in operational practices that have changed the priorities from profit making to ethical and coherent management in international supply networks. The priorities, issues, and regulations together have resulted in an increased cost of outsourced manufacturing. The concept of outsourced manufacturing has changed from being a services contract to a governance issue, thereby requiring greater engagement by different stakeholders. Stakeholders expect policy to be beneficial to everyone, including private, public, government, and institutional sectors (Doh et al., 2017). Civil society as a community enforces collaboration between international trade and sustainable development goals. Therefore, the impacts on society at large of

investments by foreign companies in another economy have become indicators of performance of international trade. Hence, growth of international business today means an increase in employment, economic diversification, social inclusion, and economic competitiveness, with a reduction in uncertainty related to investment, terrorism, and environmental degradation, and a legitimacy of accelerated sustainable development.

A Definition of International Business

The term “**globalization**” describes the increased mobility of goods, services, labor, technology, and capital throughout the world. Although globalization is not a new development, its pace has increased with the advent of new technologies that make it easier for people to travel, communicate, and do business internationally, as well as with the recognition of countries around the world that opened trade and implemented investment policies that are beneficial for their economic growth. **International business** consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. These transactions take on various interrelated forms. Primary types of international business have been export–import trade and direct foreign investment. International businesses can have varied forms, including wholly owned subsidiaries and joint ventures. Additional types of international business are licensing, franchising, and management contracts. The definition of international business reflects the flow of goods produced by a company to other countries for the sake of making profits and focuses on transactions between two or more countries. It recognizes that doing business internationally is an activity undertaken by a commercial entity to engage in business in multiple countries and not merely as a passive observer. International business refers to trade in the form of imports or exports, foreign direct investment, licensing agreements, franchising, etc. These activities result in innovative business practices, improved access to resources and capital, as well as increases in efficiency. Closely linked to activity is the term “satisfaction.” It is crucial that the participants in international business are satisfied. Only if they feel they are better off after the transaction than they were before, will individual business transactions develop into a business relationship. The fact that the transactions are across national borders highlights a key difference between domestic and international business.

The international executive is subject to a new set of macro-environmental factors, to different constraints, and to quite frequent conflicts resulting from different laws, cultures, and societies (Beugelsdijk et al., 2017 and Brannen et al., 2017). The basic principles of business are still relevant, but their application, complexity, and intensity vary substantially. For example, China’s gross domestic product

(GDP) heavily depends upon its export figures, whereas, in the case of India's GDP, it is linked with household consumption and the spending of consumers at the bottom of the pyramid (BOP). It is, therefore, important for international managers to focus on the value they wish to offer and norms they wish to follow while evaluating the competition and positioning their product or service. These aspects will enable them to be considerate to other cultures and take appropriate actions while reacting to situations in other countries. Managers of international firms should be aware, reflective, connected, flexible, and pragmatic about the different potentials of different segments in various foreign markets. Subject to constant change, international business is as much an art as a science. Yet success in the art of business depends on a firm grounding in its scientific aspects. Individual consumers, policy makers, and business executives with an understanding of both aspects of business will be able to incorporate international business considerations into their thinking and planning. They will be able to consider international issues and repercussions and make decisions related to questions such as:

- How will our idea, good, or service fit into the international market?
- Should we enter the market through trade or through investment?
- Should supplies be obtained domestically or from abroad?
- What product adjustments are necessary to be responsive to local conditions?
- What threats from global competition should be expected and how can these threats be counteracted?
- Can we serve customers with low incomes, but still maintain reasonable margins?
- Can we penetrate markets that are fragmented and not connected to the mainstream supply channels of distribution?
- Can we help customers with lower levels of literacy to develop their awareness and understanding of the product or service we offer?
- What medium should be used to create demand in the BOP segment (Bork et al., 2010)?

Given the economic dislocations and political challenges that arise with the globalization of business, many agree that globalization has done more harm than good. They believe that governments need to be more involved in managing global market forces to restore and stabilize economic systems and protect domestic jobs. This has led to government "bailouts" of industries and "buy domestic" legislation. Others claim that financial crises occur regularly to correct market imbalances and that extensive government involvement impedes market growth and the benefits that globalization brings. Has globalization gone too far? Should governments enact legislation that protects domestic industries from international competition? When management integrates these issues into the decision-making process, international markets can provide growth, profit, and needs satisfaction

not available to those that limit their activities to the domestic marketplace. The purpose of this book is to provide satisfaction and success to companies, consumers, and governments.

International business is typically driven by four key drivers: cost, market, environment, and competition. These factors together created a world economy and have contributed to growth of capitalism that has changed the quality of life for people worldwide and increased their purchasing power. Increases in consumer power pushed companies from different parts of the world to become interdependent not only for profitable production, but also for consumption of their products. Simultaneously, this change also motivated institutional agents and governments in host countries like China and India to promote and facilitate free trade in their country without any restrictions or limitations using technological advancements. Information and communication technology (ICT) helped to create global communication channels that facilitated development of an efficient global value chain. The spillover effects of these developments first led to the creation of trade regions and agreements like the European Union (EU), the Canada–United States–Mexico Agreement (CUSMA), the Association of Southeast Asian Nations (ASEAN), and the Asia-Pacific Countries (APAC). The desire of the emerging middle class in countries like China and India to use innovative products will require flexible and perhaps even new forms of management. Just consider how rapidly major and smaller corporations adopted their production capabilities to respond to newly emerging needs from Coronavirus infections. General Motors (GM) shifted production patterns to bring medical ventilators to patients in need (Boudette & Jacobs, 2020). Prada, the Milanese fashion designer, created masks and hospital gowns for the infected of Italy (Bramley, 2020).

The globalization of business and economic growth has accelerated dramatically since the 1980s. Business and management theories have pushed managers of international firms to consider global expansion in light of challenges like corruption, nepotism, and newly emerging trade restrictions (Cuervo-Cazurra, 2016). Such concerns create a challenge to capitalism in an interconnected world. Firms are best at doing what they set out to do: satisfying customers. Addressing the target market focuses the minds of managers on organizational goals.

Online trade offers many opportunities to all types of firms, including small and medium-sized enterprises (SMEs) and micro, small, and medium enterprises (MSMEs), to serve customers in foreign markets with minimized administrative burdens. International trade through online space is more efficient for both buyers and sellers, as it facilitates efficiency in production, distribution, marketing, sales, and delivery of goods and services. Exhibit 1.1 shows the extent to which business-to-consumer internet marketing has raised its impact.

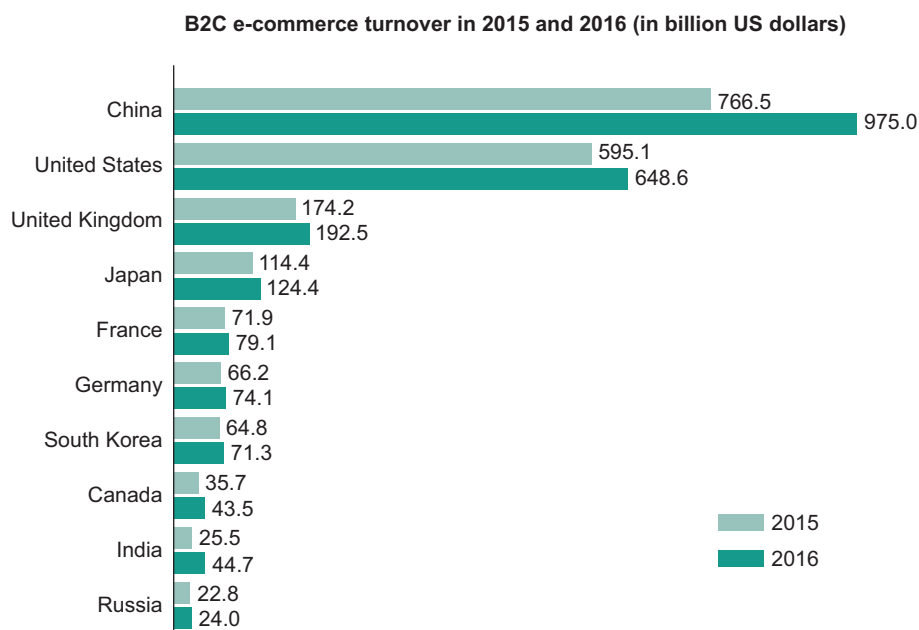


Exhibit 1.1 World's largest B2C e-commerce markets

Source: Statista.

However, there may also be difficulties that need to be overcome. Different governments may have different rules for entire business sectors. An example is the case of Antigua and Barbuda offering online gambling services to consumers in the USA and filing a complaint with the **World Trade Organization (WTO)** because of their belief that the US Government violated international treaties by restricting their online gambling services. The complaint resulted in a \$21 million per year judgement, but, so far, the USA has not paid out (Miles, 2018). Other issues that may create conflict situations for international firms include domestic regulation, customs valuation, customs duty payment, import licensing, local standards, nationality of origin, classification, national treatment, favoritism, transparency, competition, and privacy. Three main organizations investigate and adjudicate international business issues: the WTO, which deals with international trade issues in general, the General Agreement on Trade in Services (GATS), which targets complaints in the international services trade area, and the Trade-Related Aspects of Intellectual Property Rights (TRIPS), which deals with disputes related to intellectual property rights.

TRIPS is growing in importance in light of new technologies such as **e-commerce** and the growing interlinkage and exchange of intellectual capital. Article 1 of the

GATS addresses the financial and fiscal implications of e-commerce for digital products and services delivered electronically. In addition, there are other major concerns, exemplified by cybercrime, cybersecurity, piracy, data protection, and net neutrality, which deals with non-discriminatory monetization of the internet. E-commerce connects societies, governments, and businesses, while facilitating transparency, predictability, and non-discriminatory business practices. Thus, e-commerce adds value to the global supply chain. In addition, e-commerce promotes social inclusion, one of the sustainable development goals of the United Nations. This increases the capacity of small firms to develop economically and access customers across national borders.

The Need for International Business

Firms that have engaged in international business have witnessed an increase in production and consumption, thereby increasing the scope for their own and affiliated businesses. Internationalization helps companies to diversify the risk of failure in one country by expanding their activities to customers in other countries. Free trade between nations has helped develop countries to increase their wealth. Some claim that customers in developing countries have been paying for the growth of international business firms, and have predicted that the outcome may be a monopolistic business environment (Meyer, 2017; Picciotto, 2017).

Scholars find international business to be exciting because it combines the art of business with many other disciplines, such as economics, anthropology, geography, history, language, statistics, technology, and demography. Isolation can be unhealthy for a country's economy. If firms do not become a part of the global economy, they and their country may experience declining economic influence, less profitability, and a deteriorating standard of living for their country's citizens. Successful participation in international business, however, holds the promise of improved quality of life and a society that can offer more diverse alternatives. Many future professional colleagues and competitors will come from different parts of the world. In an era of niche marketing, instant communications, and virtual ways of reaching millions of people, unprecedented opportunities exist for individuals to enter the international business arena. Start-ups can compete with multinational business enterprises by delivering speed, creativity, and innovation. Understanding international business is therefore crucial for firms, both large and small.

Firms are globally linked to each other through supply agreements and joint undertakings in research and development that can have global effects, both positive and negative (Buckley et al., 2017; Cho et al., 2019; Buckley et al., 2018;