



A T M E
College of Engineering



MASTER OF BUSINESS ADMINISTRATION

INTERNATIONAL BUSINESS

Subject Code – MBA302

By

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Module 1 - Introduction to International Business



Meaning & Definitions of IB

- International business refers to all commercial activities that take place across national borders, involving the exchange of goods, services, technology, knowledge, and capital between countries. It is a broad term encompassing trade (exports and imports), investment, licensing, and franchising, driven by the opportunities for companies to expand into new markets and access resources globally.
- **According to Robock and Simmonds** - "International business is defined as a field of management training (that) deals with the special features of business activities that cross national boundaries".
- **According to Czinkotra and Grosse and Kojawa** - "International business is defined as transactions devised and carries out across international borders to satisfy corporations and individuals".
- International business = Business transactions crossing national borders at any stage of the transaction



Evolution of IB

- **Ancient Period:** International trade existed since ancient civilizations, including the **Sindhu (Indus Valley) Civilization**, which had trade relations with Eastern civilizations.
- **19th Century:** Modern International Business developed with the **integration of national economies**.
- **After World War I (1919):** Colonial powers imported **raw materials from colonies** and exported **finished goods** back to them, increasing international trade.
- **After World War II (1945):** Many countries adopted **protectionist policies** to protect domestic industries, causing a decline in international trade.
- **Post–World War II:** Countries realized the need for **international cooperation and global trade**.
- **Major Institutions Formed:** This led to organizations such as **IMF and IBRD (World Bank)**.

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Features/Nature of International Business

- **Commercial Activity** – Exchange of goods and services between countries.
Example: India exports tea to the UK.
- **Political Risk** – Business is affected by government policies and political changes.
Example: New import taxes may affect foreign companies.
- **Proactive or Reactive** – Firms enter foreign markets to gain opportunities or respond to competition.
Example: Tata enters new international markets to expand.
- **Differs from Domestic Business** – Involves different currencies, cultures and laws.
Example: An Indian company selling products in Japan must consider Japanese culture and Yen.



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- **Large-Scale Operations** – Business activities are conducted across several countries.
Example: Toyota produces and sells cars in many countries.
- **Economic Integration** – Countries become economically interdependent through trade and investment.
Example: India imports crude oil from Middle Eastern countries.
- **Developed Countries & MNCs** – MNCs have a major influence on global business.
Example: Microsoft operates in many countries.
- **Benefits to Countries** – Creates employment, foreign exchange and economic growth.
Example: IT exports from India generate foreign exchange and jobs.



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- **Keen Competition** – Companies compete globally through price, quality and innovation.
Example: Samsung and Apple compete in international smartphone markets.
- **Science & Technology** – Technology makes global business faster and easier.
Example: Online platforms enable companies to sell products worldwide.

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Importance/Advantages/Role of IB

- **Enhances Standard of Living** – Provides better quality products and services at competitive prices.
Example: Imported smartphones and electronics.
- **Expands Market** – Helps businesses reach customers in different countries.
Example: Indian textile companies exporting abroad.
- **Creates Employment & Economic Welfare** – Generates jobs, income and foreign exchange.
Example: India's IT industry earns foreign exchange through exports.
- **Risk Reduction** – Selling in different countries reduces dependence on one market.
Example: Low sales in India can be balanced by exports.



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- **Economies of Scale** – Large-scale production reduces the cost per unit.
Example: Toyota produces vehicles for global markets.
- **Encourages Innovation & Competition** – Global competition motivates domestic firms to improve quality and technology.
Example: Indian companies improving products to compete with MNCs.
- **Efficient Utilisation of Resources** – Countries specialize in products they can produce efficiently and trade with others.
Example: India exports IT services and imports crude oil.

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Challenges of IB

- **High Cost** – International operations involve high transportation, communication and marketing costs.
Example: Shipping products overseas increases costs.
- **Different Laws and Regulations** – Companies must follow different legal systems in different countries.
Example: A company must meet different tax and labour laws.
- **Affects Cash Flow** – Exchange-rate fluctuations can affect business income and expenses.
Example: A fall in the value of foreign currency may reduce export earnings.



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- **Cultural Differences** – Different languages, customs and consumer preferences create challenges.
Example: A product popular in India may not suit customers in Japan
- **Highly Competitive Markets** – Firms face strong competition from international companies.
Example: Samsung competes with Apple globally.
- **Trade Barriers** – Tariffs, quotas and import restrictions can limit international trade.
Example: High import duties make foreign products expensive.
- **Dependence on Imports** – Excessive dependence on foreign products can weaken domestic industries.
Example: Heavy dependence on imported electronic components can affect local manufacturers.

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Scope of IB

- **International Trade** – Import and export of goods and services between countries.
Example: India exports textiles and imports crude oil.
- **Foreign Direct Investment (FDI)** – Direct investment in a foreign country.
Example: A company establishes a subsidiary in another country.
- **Licensing & Franchising** – Giving foreign firms rights to use a brand, technology or business model for a fee.
Example: McDonald's franchises its business worldwide.
- **Global Supply Chain Management** – Managing sourcing, production and distribution across countries.
Example: A company sources raw materials from one country and manufactures in another.

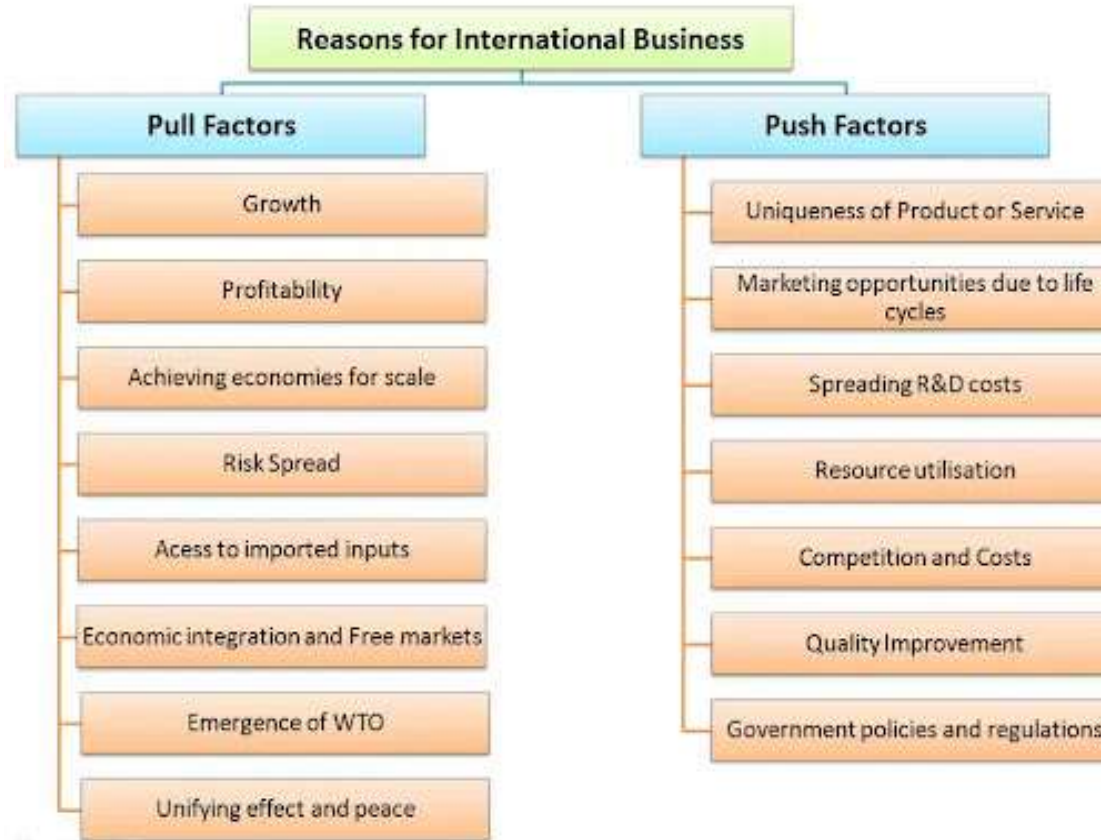


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- **International Marketing** – Adapting marketing strategies to different countries and cultures.
Example: Advertising products differently in India and Japan.
- **Cross-Cultural Management** – Managing employees from different cultures and backgrounds.
Example: An MNC manages teams from India, USA and Japan.
- **International Finance** – Managing foreign currencies, taxes and international investments.
Example: A company manages exchange-rate fluctuations while receiving foreign payments.

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Factors affecting/Reasons for Entering into IB



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A.Pull Factor

- **Growth** – Companies enter foreign markets when domestic markets become saturated.
Example: Indian companies expanding into the UAE.
- **Profitability** – Foreign markets may provide higher profits due to better prices or demand.
Example: A company earns more by selling products abroad.
- **Economies of Scale** – Large-scale production for international markets reduces the cost per unit.
Example: A car company produces vehicles in large quantities for global markets.
- **Risk Spread** – Operating in different countries reduces dependence on one market.
Example: Low sales in India can be balanced by sales in Europe.



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- **Unifying Effect & Peace** – International trade builds relationships and promotes cooperation among countries.
Example: Trade between neighbouring countries strengthens economic relations.
- **Access to Imported Inputs** – Firms can obtain better-quality raw materials, technology and inputs from other countries.
Example: An Indian manufacturer imports advanced machinery.
- **Economic Integration & Free Markets** – Liberalization allows easier movement of goods and services across countries.
Example: German companies expanding into international markets.
- **Emergence of WTO** – WTO promotes international trade by reducing trade barriers and encouraging cooperation.
Example: WTO agreements facilitate trade between member countries.

B. Push Factor

- **Uniqueness of Product/Service** – Unique products face less competition in foreign markets.
Example: Indian handicrafts, herbal products and IT services.
- **Marketing Opportunities Due to Product Life Cycle** – Firms enter new countries when products become saturated in existing markets.
Example: A mature product in India may be introduced in a new foreign market.
- **Spreading R&D Costs** – International markets help firms recover high research and development costs faster.
Example: Pharmaceutical and software companies.
- **Resource Utilisation** – Firms establish industries where raw materials and resources are easily available.
Example: Steel industries located near mineral-rich areas.



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- **Quality Improvement** – Larger international markets encourage firms to invest in better technology and quality.
Example: Companies adopting advanced machinery to meet global quality standards.
- **Competition and Costs** – Strong competition in the domestic market encourages firms to enter international markets.
Example: Indian companies expanding abroad to compete with foreign firms.
- **Government Policies and Regulations** – Government incentives, export benefits and supportive policies encourage international business.
Example: Export incentives and duty exemptions encourage Indian firms to export.

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Stages of IB





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1. **Domestic Company** – Operates only in the home country.
Example: Local Indian business.
2. **International Company** – Enters foreign markets by extending domestic operations.
Example: Indian company opening a branch abroad.
3. **Multinational Company (MNC)** – Operates in different countries and adapts to local markets.
Example: McDonald's.
4. **Global Company** – Uses a common global strategy and sells worldwide.
Example: Apple.
5. **Transnational Company** – Integrates production, investment and marketing across the world.
Example: Unilever.



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Changing scenario/Emerging Trends of International Business

- **Sustainable Business Practices** – Focus on eco-friendly and responsible business.
Example: Use of renewable energy.
- **Digital Transformation** – Use of digital technologies to improve business.
Example: Online sales and digital payments.
- **Changing Consumer Behaviour** – Businesses adapt to changing customer needs and preferences.
Example: Growing demand for online shopping.
- **Geopolitical Uncertainty** – Political conflicts and policies affect global trade.
Example: Trade restrictions between countries.

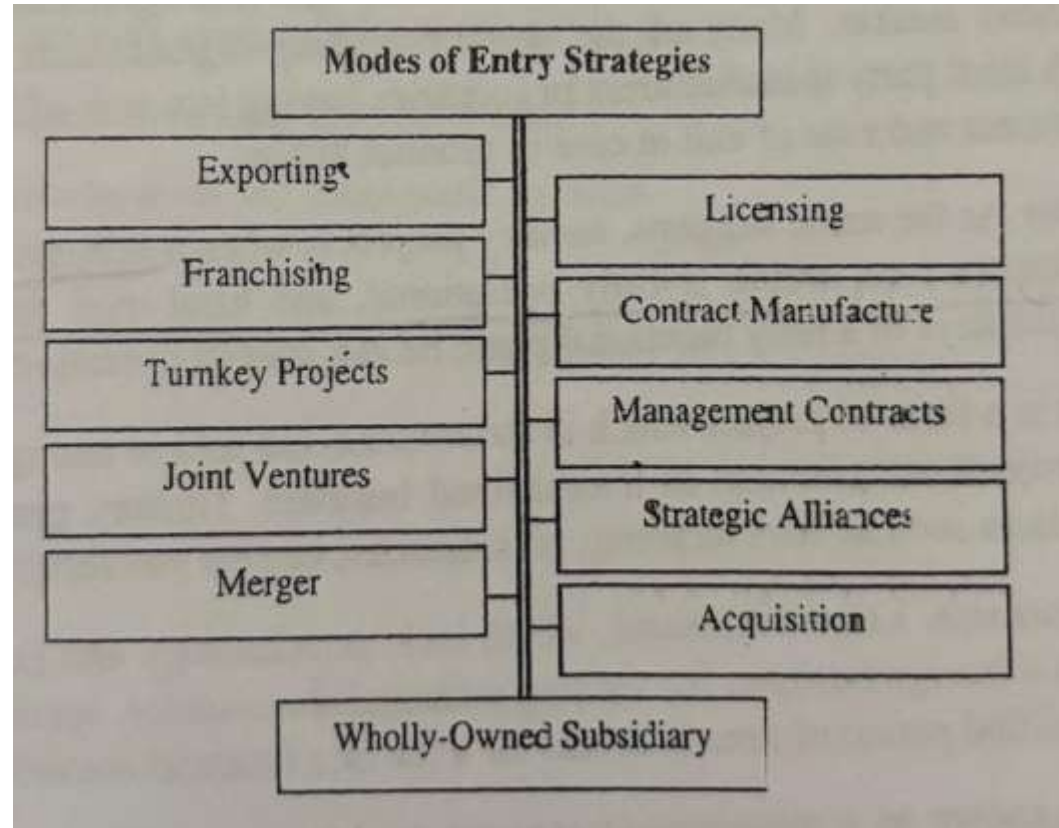


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- **Innovation for Competitive Advantage** – New technology and products help firms compete.
Example: AI-based products and services.
- **Digital Workforce** – Technology enables remote work and new ways of working.
Example: Employees working through online platforms.
- **Data Analytics** – Data is used for better decision-making.
Example: Analysing customer data to predict buying behaviour.
- **Business Resilience** – Companies develop strategies to handle unexpected disruptions.
Example: Maintaining multiple suppliers to avoid supply-chain problems.

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Modes of entry into IB



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- **Exporting** – Selling products to foreign markets.
Example: India exports textiles to the USA.
 - **Indirect Exporting:** Through an intermediary.
 - **Direct Exporting:** Directly to foreign customers.
- **Licensing** – Giving a foreign company the right to use technology, patent or trademark for a fee.
Example: A company licenses its technology to a foreign firm.
- **Franchising** – Allowing a foreign business to use a brand and business model for a fee.
Example: McDonald's franchises its outlets worldwide.
- **Contract Manufacturing** – A foreign/local company manufactures products on behalf of another company.
Example: A global brand gets its products manufactured in India.



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- **Turnkey Projects** – Building a complete, ready-to-operate facility and handing it over to the buyer.
Example: Constructing and handing over a fully operational cement plant.
- **Management Contracts** – Providing management and technical expertise to a foreign company for a fee.
Example: A hotel company managing a foreign hotel.
- **Joint Venture** – Two or more companies jointly establish and operate a new business.
Example: An Indian company and a foreign company forming a new company together.
- **Strategic Alliance** – Companies cooperate to achieve common objectives without merging.
Example: Two airlines cooperating through a partnership.

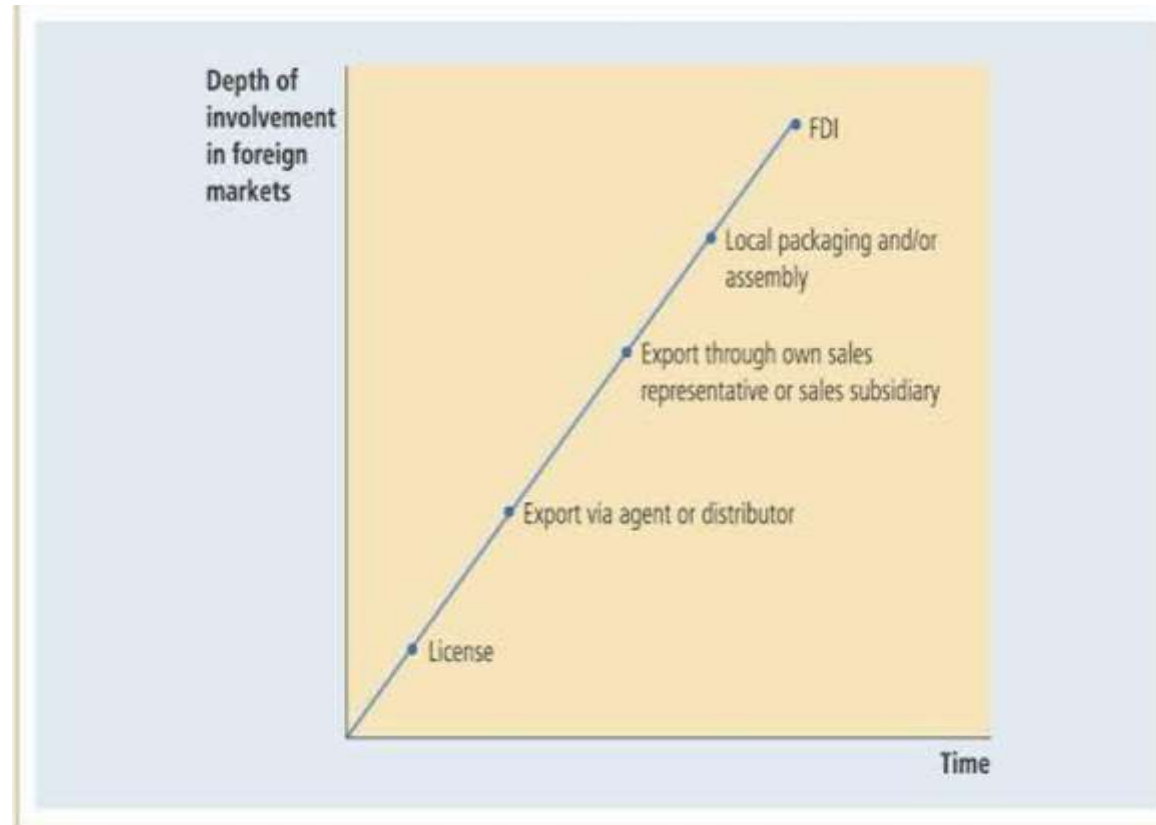


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- **Merger** – Two or more companies combine to form one business.
Example: Two companies combining their operations into one.
- **Acquisition** – One company purchases an existing foreign company.
Example: An Indian company buying a foreign business.
- **Wholly-Owned Subsidiary** – A company establishes or buys a foreign business with 100% ownership and control.
Example: A company establishing its own subsidiary in another country.

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Internationalization Process





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1. Licensing

- Low-risk entry into foreign markets.
- Licensor allows use **of technology, patent or trademark** for a fee/royalty.
- Example: A company licenses its brand to a foreign company.

2. Export through Agent/Distributor

- Products are sold abroad through a local agent or distributor.
- Requires low investment and commitment.
- Example: An Indian company uses a Dubai distributor to sell its products.



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3. Own Sales Representative/Sales Subsidiary

- Company establishes its own sales office or subsidiary abroad.
- Provides greater control over sales and customers.
- Example: An Indian company opens its own sales office in the UK.

4. Local Packaging/Assembly

- Products are packaged or assembled in the foreign country.
- Reduces costs and improves local market response.
- Example: A car company imports parts and assembles vehicles locally.

5. Foreign Direct Investment (FDI)

- Investment in a foreign country & Involves production and marketing abroad
- High investment and risk & Provides high control.
- Example: Toyota plant in India.



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Difference Between Domestic Business & International Business

Basis	Domestic Business	International Business
Meaning	The business where economic transactions are conducted within the geographical boundaries of one country.	The business where economic transactions are conducted across borders with several countries in the world.
Nationality of Buyers and Sellers	Both <u>buyers</u> and sellers belong to the same country. It makes it easier for both parties to understand each other and enter into business deals.	Both buyers and sellers belong to different countries, which makes business dealings relatively difficult due to differences in their languages, attitudes, customs, etc.
Nationality of other Stakeholders	Stakeholders(employees, suppliers, creditors, etc.,) are from one nation.	Stakeholders(employees, suppliers, creditors, etc.,) are from different nations.
Mobility of Factors of Production	Degree of mobility of factors of production(land, labour, etc.) is more as compared to international business.	Degree of mobility of factors of production(land, labour, etc.) is less as compared to domestic business.



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Nature of Customers	Customers are homogeneous in their tastes, preferences, consumption patterns, and buying behaviour.	Customers are not homogeneous due to different socio-cultural backgrounds, tastes, fashions, languages, beliefs, customs, etc.
Business Systems and Practices	Business systems and practices are homogeneous within a country.	Business systems and practices are less homogeneous as there is difference in development level, infrastructure, market facilities, etc.
Political System and Risks	Domestic business firms are familiar with the political system of their country. As a result, they are in a better position to understand and predict its impact on business.	International business faces difficulties in understanding and coping with the different political systems of every country.
Business Regulations and Policies	Rules, laws, or taxation policies of a single country prevail in domestic business.	Rules, laws, or taxation policies of various countries prevail in the case of international business.



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Currency used	Currency of the domestic country is used.	Currency of more than one country is used.
Risk	It involves comparatively less degree of risk.	It involves a high degree of risk.
Order Processing Time	There is a less time gap between order and supply of goods.	There is a wide time gap between order and supply of goods.
Effect on Foreign Reserve	It has no effect on the foreign reserves of a country.	It has a direct impact on the foreign reserves of a country.