



INTERNATIONAL BUSINESS

Subject Code – MBA302

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Module 2 - International Business Environment

Meaning & Definition of International Business Environment

International business environment is composed of various legal and political systems, economic policies, accounting standards, environmental standards, labour policies, language and cultural differences, export and import regulations, tariffs, foreign exchange policies, trade agreements, etc. All these elements may undergo significant variations from one country to another. Objectives of a business enterprise and methods to achieve them are the governing factors for its business operations in an international business environment.

According to ICFAI centre for management research - "Global Business Environment is the environment in different sovereign countries, with factors exogenous to the home environment of the organisation, influencing decision making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal, and technological environments".

Importance of IBE

- **Identifies Opportunities and Threats** – Helps find new markets and identify risks.
Example: An Indian company sees demand for its products in Dubai.
- **Helps Strategic Planning** – Supports decisions about markets, pricing, investment, and products.
Example: A company studies demand before entering the US market.
- **Helps Adapt to Global Changes** – Enables firms to respond to changes in tariffs, technology, and policies.
Example: A company changes suppliers when import tariffs increase.
- **Promotes Innovation and Competitiveness** – Encourages better products and lower costs.
Example: Global competition motivates smartphone companies to develop new features.

MASTER OF BUSINESS ADMINISTRATION

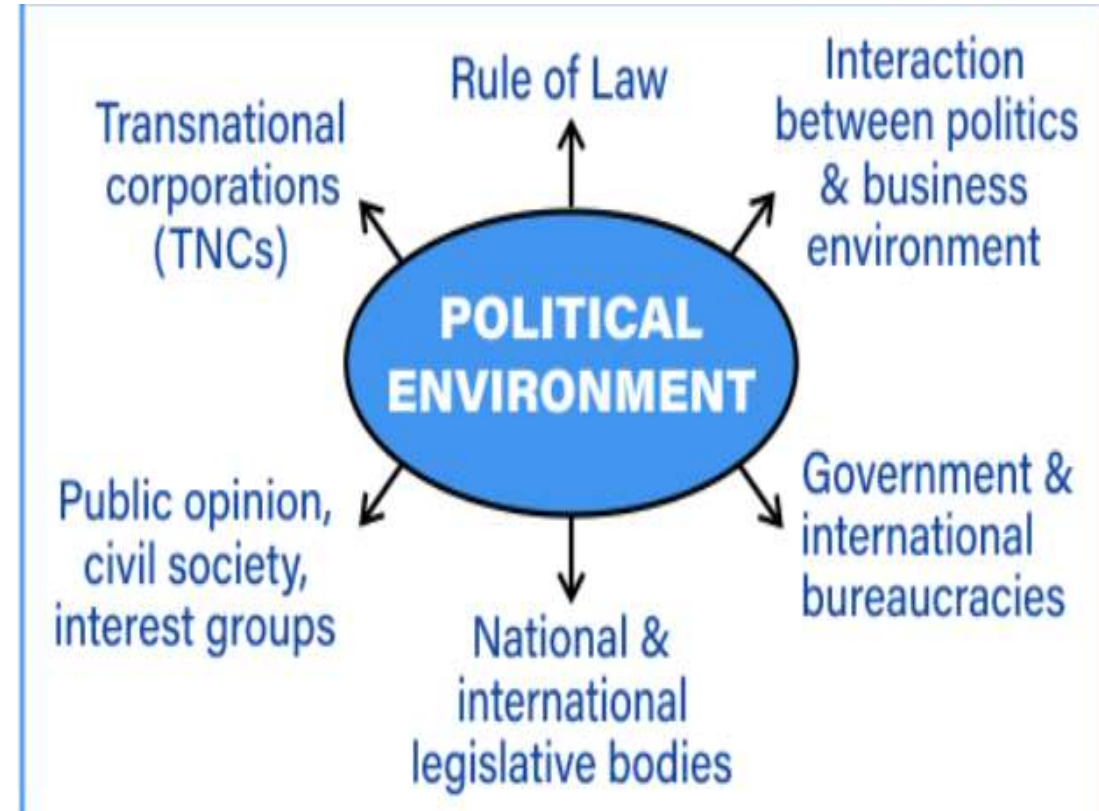
- **Manages Cultural Diversity** – Helps businesses understand different cultures and communicate effectively.
Example: A company changes its advertising to suit Indian and Japanese customers.
- **Ensures Legal Compliance** – Helps firms follow foreign laws and regulations.
Example: An exporter follows the environmental standards of the destination country.
- **Supports Risk Management** – Helps identify and manage political, currency, and economic risks.
Example: A company protects itself against losses due to currency fluctuations.
- **Enhances Global Cooperation and Growth** – Encourages international trade, investment, and partnerships.
Example: An Indian company partners with a Japanese firm to develop new technology.

Components/Dimensions of international Business environment



Political Environment

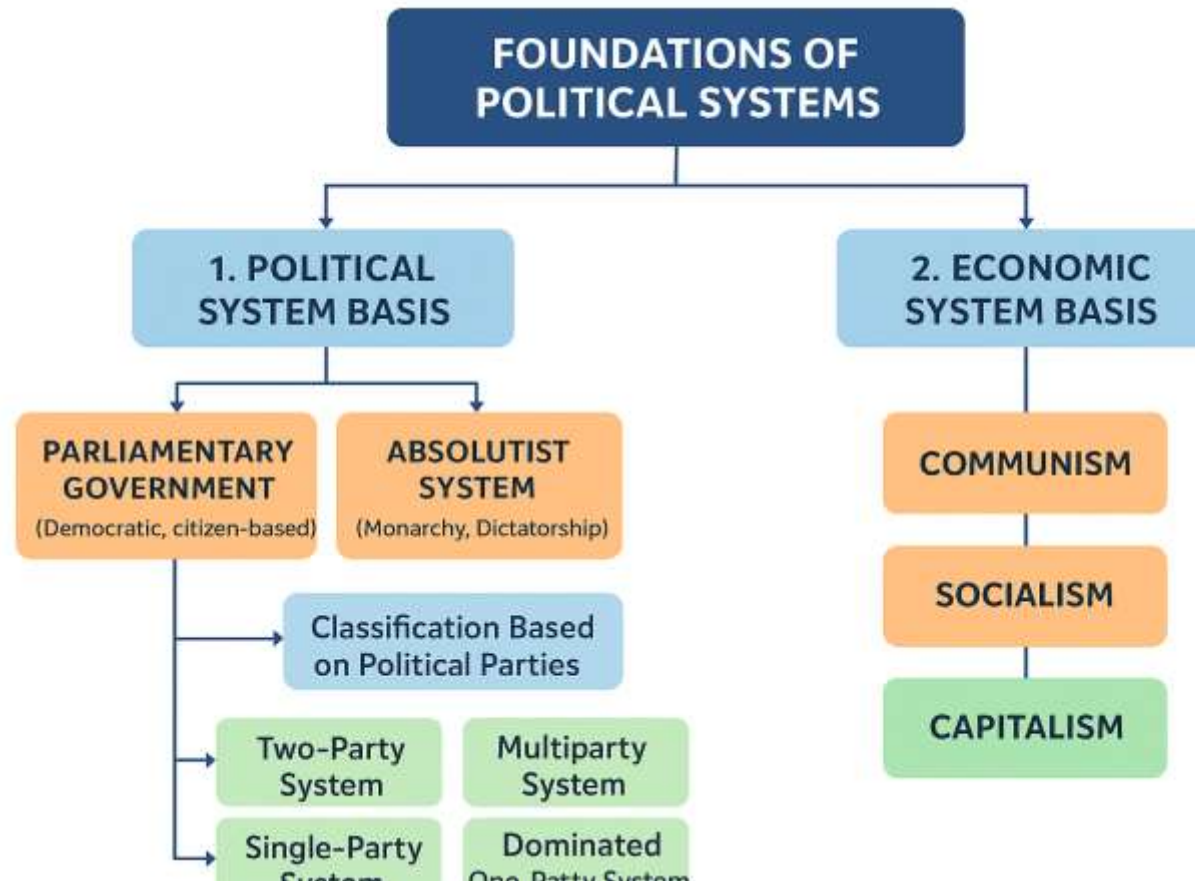
- The political environment refers to how government policies, political stability, laws, and government actions affect business operations and international trade.
- **Example** - If a country has stable government policies and low trade restrictions, foreign companies are more likely to invest there. However, political instability or sudden changes in import duties may discourage foreign investment.
- **Government Policies & Stability** – Includes government policies, regulations, taxation, and political stability that influence investment and ease of doing business.
- **Impact on Business Growth** – A stable political environment promotes business growth, while political instability or strict policies can hinder business operations.



Political System - Meaning

- A political system refers to the framework of laws, institutions, and practices that determine how a country is governed, how power is distributed, and how decisions are made and implemented.
It defines the relationship between the government and citizens and influences the business environment, especially in international trade and investment.
- In international business, understanding the political system of a country helps companies assess the level of stability, government control, and openness to foreign investment.

Foundations on Which the Political System or Government Can Be Classified



1. Political System as the Basis - This classification is based on how the government is organized and how political power is exercised.

(a) Parliamentary Governments

- Parliamentary governments seek suggestions from citizens and consider their opinions while forming policies.
- The policies are designed to reflect the majority's views and interests.
- Such systems are common in industrialized and democratic nations.
- Examples: India, United Kingdom, Canada

(b) Absolutist Systems

- These governments include monarchies and dictatorships.
- The ruling authority controls the government policies without consulting citizens.
- These systems are often found in newly formed nations or those undergoing a transition phase.
- Examples: Saudi Arabia, North Korea

(c) Classification Based on the Number of Political Parties

Type	Description	Examples
Two-Party System	Two main political parties dominate government control. Other smaller parties exist but rarely form governments.	USA, United Kingdom
Multiparty System	Several political parties exist; no single party gains a majority. Governments are formed through coalitions.	India, Italy
Single-Party System	One party is dominant for long periods, even though other small parties exist.	Egypt (historically)
Dominated One-Party System	Only one dominant party is legally allowed to rule; no real opposition is permitted.	Former Soviet Union, Cuba, Libya

2. Economic System as the Basis - Governments can also be classified based on the economic philosophy they follow.

There are three main types:

(a) Communist System

- All resources are owned and controlled by the government on behalf of the citizens.
- The government decides on production, prices, employment, and education.
- The focus is on social welfare rather than profit, often resulting in low efficiency.
- Examples: China (partly), North Korea, Cuba

(b) Socialist System

- The government controls major industries, while smaller businesses can remain under private ownership.
- Aims to reduce inequality and balance between state control and private enterprise.
- Different socialist countries have different levels of control.
- Examples: Poland, Sweden, Norway

(c) Capitalist System

- Based on the free-market economy where individuals and companies own and operate businesses for profit.
- Encourages competition, innovation, and consumer choice.
- The government has minimal control over business operations.
- Examples: United States, Japan

Influence of Political Environment on IB

1. Government Policies

- Governments influence international business through trade policies, taxation, investment regulations, and foreign exchange laws.
- Liberal and business-friendly policies encourage foreign direct investment (FDI), while restrictive policies discourage it.
- Example: India's economic liberalization in 1991 attracted multinational companies (MNCs).

2. Political Stability

- A stable political environment gives confidence to investors and ensures smooth business operations.
- Political instability, such as coups, protests, or frequent changes in government, increases business risks and operational costs.
- Example: Political unrest in some African nations has discouraged foreign investment

3. Trade Regulations and Tariffs

- Tariffs, import quotas, and export restrictions can significantly affect international trade costs.
- Free trade agreements (FTAs) and regional blocs (like EU, ASEAN, NAFTA) make trade easier and cheaper.
- Example: The European Union promotes free trade among member countries.

4. Foreign Relations and Diplomacy

- Friendly diplomatic relations encourage trade and joint ventures.
- Sanctions, embargoes, or strained relations can block trade opportunities.
- Example: U.S. sanctions on Iran and Russia restrict global businesses from operating there.

5. Legal and Regulatory Environment

- International businesses must comply with local labor laws, environmental laws, and corporate governance norms.
- Strict or changing regulations can increase compliance costs.
- Example: European GDPR data protection laws affect global tech companies.

6. Corruption and Bureaucracy

- High corruption or complex bureaucratic procedures can delay approvals, increase costs, and discourage investment.
- Transparent governance systems improve business confidence.
- Example: Transparency International's Corruption Perceptions Index influences investors' decisions.

7. Political Risks

- Businesses face risks such as nationalization, expropriation, terrorism, and policy changes in politically sensitive regions.
- Companies often buy political risk insurance to protect against such losses.
- Example: Oil companies operating in Middle Eastern countries face expropriation risks.

8. Taxation and Fiscal Policies

- Changes in corporate tax rates and import/export duties directly impact profitability and pricing strategies.
- Tax incentives can attract multinational corporations to invest in a country.

Legal Environment

- The legal environment refers to the system of laws, regulations, and legal institutions that govern how businesses operate within a country and across international borders.
It defines the rights and responsibilities of businesses, employees, and governments, ensuring fair and lawful conduct in trade and commerce.
- In international business, understanding the legal environment of both the home country and the host country is essential for smooth and compliant operations.
- The global legal environment governs how organizations operate across borders.
 - A domestic firm must follow only national laws.
 - A multinational firm must comply with both domestic and international laws.

Three Bodies of Law Affecting Global Marketing

(i) International Laws

- These are agreements and rules that countries agree to follow to promote fair and peaceful global relations.
- Cover areas like trade, protection of property, human rights, and dispute resolution.
- Though not always enforceable, international laws are maintained by global bodies such as the United Nations (UN) and the World Trade Organization (WTO).
- Example: WTO trade regulations, Paris Agreement on climate change

(ii) Host-Country Laws

- These are the laws of the foreign country where a company operates.
- Legal systems in host countries can differ greatly from the company's home country.
- MNCs must comply with local labor, tax, trade, and environmental laws of each host nation.
- Example: A U.S. company operating in India must follow India's Companies Act and tax laws.

(iii) Home-Country Laws

- These are the laws of the company's origin country that continue to apply even in foreign operations.
- Such laws regulate foreign investments, export-import control, and taxation of overseas earnings.
- Example: U.S. Foreign Corrupt Practices Act (FCPA) prevents American firms from bribing foreign officials.

Legal Factors Affecting International Business

(1) Bribery

- Refers to offering or receiving favors, money, or benefits to influence decisions.
- Considered a punishable offense under both national and international laws.
- Bribery may involve cash, gifts, promotions, or privileges.
- Example: Many countries have anti-bribery laws (e.g., UK Bribery Act, U.S. FCPA).

(2) Decision Regarding Branch or Subsidiary - When expanding globally, a company must decide whether to operate as a branch or subsidiary

- Branch is an extension of the main office that follows fewer formalities and is not a separate legal entity.
- Subsidiary is a legally independent company that is owned and controlled by the parent firm and is considered a form of Foreign Direct Investment (FDI).

(3) Counterfeiting

- Refers to the imitation or duplication of products, documents, or currencies without authorization.
- Violates intellectual property rights and affects brand reputation and revenue.
- Examples: Fake medicines, branded clothing, watches, or electronic goods.

(4) Strategic Legal Concerns - Legal issues affect the overall strategy and value creation of international companies — from production to marketing. Major concerns include:

i) Safety and Liability

- Firms must comply with local safety standards and product liability laws.
- Standards may vary from those in the home country.

ii) Marketing Behaviour

- National laws regulate advertising, pricing, and product promotion.
- Example: Advertising of tobacco and alcohol is banned in many countries.

iii) Product Origin

- Laws decide how and where a product can be distributed.
- They determine who receives profits and legal responsibility for exports and imports.

iv) Legal Jurisdiction

- Refers to which country's laws and courts handle legal disputes.
- Companies often prefer arbitration or the jurisdiction of their home country for favorable outcomes.

Influence of Legal Environment on IB

1. **Deregulation** reduces market entry restrictions, allowing more organizations to enter a country and increasing competition.
2. **Globalisation** requires firms to comply with complex legal frameworks across multiple countries.
3. **Natural Environment Concerns** have led to the enforcement of strict environmental laws related to emissions and pollution control.
4. **Intellectual Property Rights (IPR)** vary globally, affecting the protection of patents, trademarks, and copyrights.
5. **Product Liability and Safety** laws hold companies accountable for manufacturing or selling defective and unsafe products.
6. **Competition Laws** aim to prevent monopolies and ensure fair market competition among businesses.
7. **Bribes and Corruption** are controlled through anti-corruption laws such as the U.S. Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act.
8. **Advertising and Sales Promotion** regulations prohibit misleading advertisements and unfair marketing practices.
9. **Contracts** are governed by international contract laws and play a crucial role in managing global trade agreements and transactions

Economic Environment

- The Economic Environment refers to all economic factors, systems, policies, and conditions that influence the functioning of business organizations in a country or globally. It includes production, income distribution, consumer spending, and market structures that determine the success of international business operations.
- The economic environment in international business refers to the global economic factors that impact a company's operations, such as GDP growth, inflation, interest rates, and currency fluctuations.
- It includes both a nation's specific economic conditions and the broader global economic landscape, which can affect everything from pricing and market entry strategies to investment decisions and profitability.
- Key elements to analyze are economic stability, government policies, and technological development, as these all influence a business's costs, opportunities, and overall performance in international markets.

Determinants of Economic Development

A. Economic Factors

1. **Capital Formation** - Higher savings and investment rates promote production and economic growth. Over-dependence on foreign aid should be avoided.
2. **Natural Resources** - The availability and quality of soil, minerals, forests, water, and climate determine development potential.
3. **Marketable Surplus of Agriculture** - Surplus agricultural production beyond local needs supports industrial growth and urban populations.
4. **Foreign Trade Conditions** - Trade enables countries to specialize and benefit from comparative advantage and global markets.
5. **Economic System** - The type of system—capitalist, socialist, or mixed—affects development prospects and government control.

B. Non-Economic Factors

1. **Human Resources** - Skilled, educated, and healthy labour contributes more effectively to economic growth.
2. **Technical Know-How & Education** - Science, technology, and R&D improve productivity and innovation.
3. **Political Freedom** - Stable and independent governance supports fair trade and industrial expansion.
4. **Social Organisation** - Fair distribution of development benefits encourages public participation in nation-building.
5. **Corruption** - Weakens governance and leads to exploitation of resources for personal gain.
6. **Desire to Develop** - Citizens' motivation and collective will to progress determine development speed.

Economic Conditions

Economic conditions describe the current state of the economy in terms of:

- GDP growth, inflation, and employment rates
- Boom and recession cycles
- Balance of payments and current account positions
- Sectoral dependence (e.g., oil or agriculture)
- External and internal trade factors like global demand and exchange rates

Economic Policies

1. **Fiscal Policy** - Controls government revenue and expenditure to ensure stability, full employment, and economic growth.
2. **Monetary Policy** - Managed by central banks (e.g., RBI in India) to regulate money supply, credit, and interest rates for price stability and growth.
3. **Foreign Trade Policy** - Governs imports, exports, and international trade relations to improve the balance of payments and promote exports.
4. **Industrial Policy** - Encourages industrial growth through liberalization and privatization, reducing state control over industries.
5. **Privatisation Policy** - Transfers ownership of state enterprises to private hands to improve efficiency and productivity.
6. **Foreign Exchange Policy** - Manages exchange rates and capital movements across borders to stabilize currency and promote investment.
7. **Foreign Investment and Technology Policy** - Promotes FDI and technological collaboration to encourage industrial and technological development.

Influence of Economic Environment on International Business

- **Changing Income** - Rising or falling consumer income directly affects purchasing power and market demand.
- **Changing Consumer Spending Patterns** - As income rises, spending shifts from basic needs to luxury and discretionary products.
- **Changing Economic Conditions** - Economic fluctuations, globalization, and interdependence influence investment, trade, and pricing decisions.

Technological Environment

- The technological environment is a component of the international business environment that includes the level of technological advancement, innovation, and infrastructure in a country or region.
- According to J. K. Galbraith, “Technology is a systematic application of scientific or other organized knowledge to practical tasks.”
- Technology refers to the methods, tools, and skills used to accomplish a specific task. It involves not just knowledge, but also the ability to apply that knowledge effectively.

Technological innovation implies both an expansion of knowledge and skills, leading to new or improved ways of performing work.

Features of Technological Environment

1. **Macro Environment Factor** – Technology affects all businesses along with political, economic, and social factors.
2. **Wide Impact** – Technological changes affect individuals, firms, industries, and countries worldwide.
3. **Application of Science** – Technology is the practical application of scientific knowledge.
4. **Constant Change** – Technology changes continuously, forcing businesses to adapt quickly.
Example: Companies adopting AI and automation.
5. **Prevalent Nature** – Technology influences almost every sector and community.
Example: Digital payments are used in banking, retail, and education.
6. **Self-Reinforcing** – One invention often leads to further innovations.
Example: The invention of the wheel led to developments in transport and machinery.

Influence of Technological Environment on International Business

1. Influence of Technology on Society - Society has probably experienced the most prominent effects of technology. Technological advancements have impacted almost every aspect of human and social life. Some of the key effects include:

- i) **Rising Customer Expectations** – Technology increases people's expectations for innovative, safe, and user-friendly products, forcing firms to invest more in R&D. Example: Customers expect smartphones with better cameras and advanced features.
- ii) **Complicated Systems** – Modern technology makes machines and systems **more complex**, requiring skilled workers for operation, maintenance, and repair. Example: Automated factory machines need trained technicians to fix system failures.

iii) Social Change - Technological innovations bring about social transformation in several ways:

- a. They may disrupt old economic foundations (e.g., relocation of laborers or creation of new industries).
- b. Family structures and lifestyles are changing — for example, women entering the workforce has altered traditional domestic roles.
- c. Developing countries have experienced a new kind of social stratification based on class rather than caste, largely due to the influence of multinational corporations (MNCs).
- d. Technology has changed every facet of life — from communication to work patterns and language. New terms like *robotics*, *e-commerce*, *e-learning*, and *netizens* have entered daily vocabulary.

2. Economic Effects of Technology - Technological development has significantly influenced global and national economies in several ways:

i) Increase in Productivity - Technology enhances both the quantity and quality of production. In industries, it helps produce more at lower cost; in healthcare, it ensures efficiency and accuracy in saving lives.

ii) Necessity of Spending on R&D - With technological progress, R&D has become vital. Organisations must make crucial decisions regarding:

- Allocation of resources for R&D,
- Transfer of technology from laboratory to real life,
- Timing of innovations,
- Replacement of outdated technologies,
- Conducting R&D internally or outsourcing it,
- Product or process innovation strategies.

iii) Jobs Becoming Knowledge-Oriented - Technological advancement demands intelligence and higher skills. Jobs once done by untrained workers now require educated and skilled professionals. Even clerical roles require strong computer literacy.

iv) Issues Related to Techno-Structure - As firms adopt advanced technologies, they develop professional teams comprising engineers, scientists, and managers. However, managing such highly educated employees poses challenges:

- a) They are motivated more by challenging projects than by financial rewards.
- b) Retaining them long-term can be difficult.
- c) They must balance technological innovation with awareness of social consequences.

v) Increased Regulation and Public Opposition - Technological developments often attract government regulations and public scrutiny. Products harmful to health or offensive to cultural sentiments may be banned.

Example: The Indian government prohibits the import of animal tallow used in vanaspati oil, as it hurts religious sentiments.

vi) Rise and Fall of Products and Firms - Technological change can create or destroy industries.

Example:

- Audio cassettes were replaced by CDs and DVDs.
- Carbon paper became obsolete due to photocopying technology (xerography).

3. Technology and Root-Level Alterations - Technology affects organizations at the structural and psychological levels:

- i) Organisational Structure** - Technology influences authority, communication, and span of control. Firms using fast-changing technologies often adopt a matrix structure to ensure flexibility and coordination.
- ii) Fear of Risk** - Firms engaged in technological innovation face the risk of failure. For instance, DuPont, a research-based company, faced multiple failures before succeeding in introducing synthetic fibers in 1939.
- iii) Resistance to Change** - Employees often resist new technology due to psychological factors or fear of redundancy. Managers must handle this resistance through effective change management strategies

Socio & Cultural Environment

- The social and cultural environment plays a significant role in shaping international business decisions and marketing strategies. Social and cultural influences affect consumers' perceptions, preferences, and buying behaviour across different countries and regions.
- Differences in social conditions, traditions, religion, values, and lifestyles determine how similar or diverse global consumers are. Understanding these factors helps firms decide the extent to which global standardisation or local adaptation is possible.
- A business that fails to understand these dimensions may face challenges in product design, marketing communication, or even brand acceptance in foreign markets.

Example: McDonald's in India

- McDonald's faced several socio-cultural challenges when entering the Indian market:
- About 40% of the population is vegetarian, and many non-vegetarians avoid beef and pork for religious reasons.
- There was hostility toward frozen meat and fish, as Indians generally prefer fresh food.
- Indian consumers have a strong preference for spicy flavours.

To adapt, McDonald's:

- Introduced vegetarian menus cooked in separate kitchens and utensils.
- Developed local sauces such as McMasala and McImli to suit Indian tastes.
- These innovations, originally meant for India, later gained popularity in other markets.

Major Elements of the Socio-Cultural Environment

- **Literacy Rates** - The literacy level determines the mode of communication for marketing and advertisements. In low-literacy markets, visual and oral methods work better than written ones.
- **General Education Levels** - Education affects consumer awareness, product understanding, and quality expectations. Educated societies tend to be more brand- and quality-conscious.
- **Language** - Language barriers can cause misunderstanding in advertising, packaging, and branding. Translation and cultural adaptation are essential. Example: General Motors' slogan "Body by Fisher" translated in Japan as "Corpse by Fisher," causing confusion.
- **Religion** - Religious beliefs influence food habits, clothing, business ethics, and holidays. Firms must respect religious sentiments. Example: In India, beef and pork products face strong resistance due to religious beliefs.

SOCIO-CULTURAL ENVIRONMENT

Literacy Rate

General Education Levels

Language

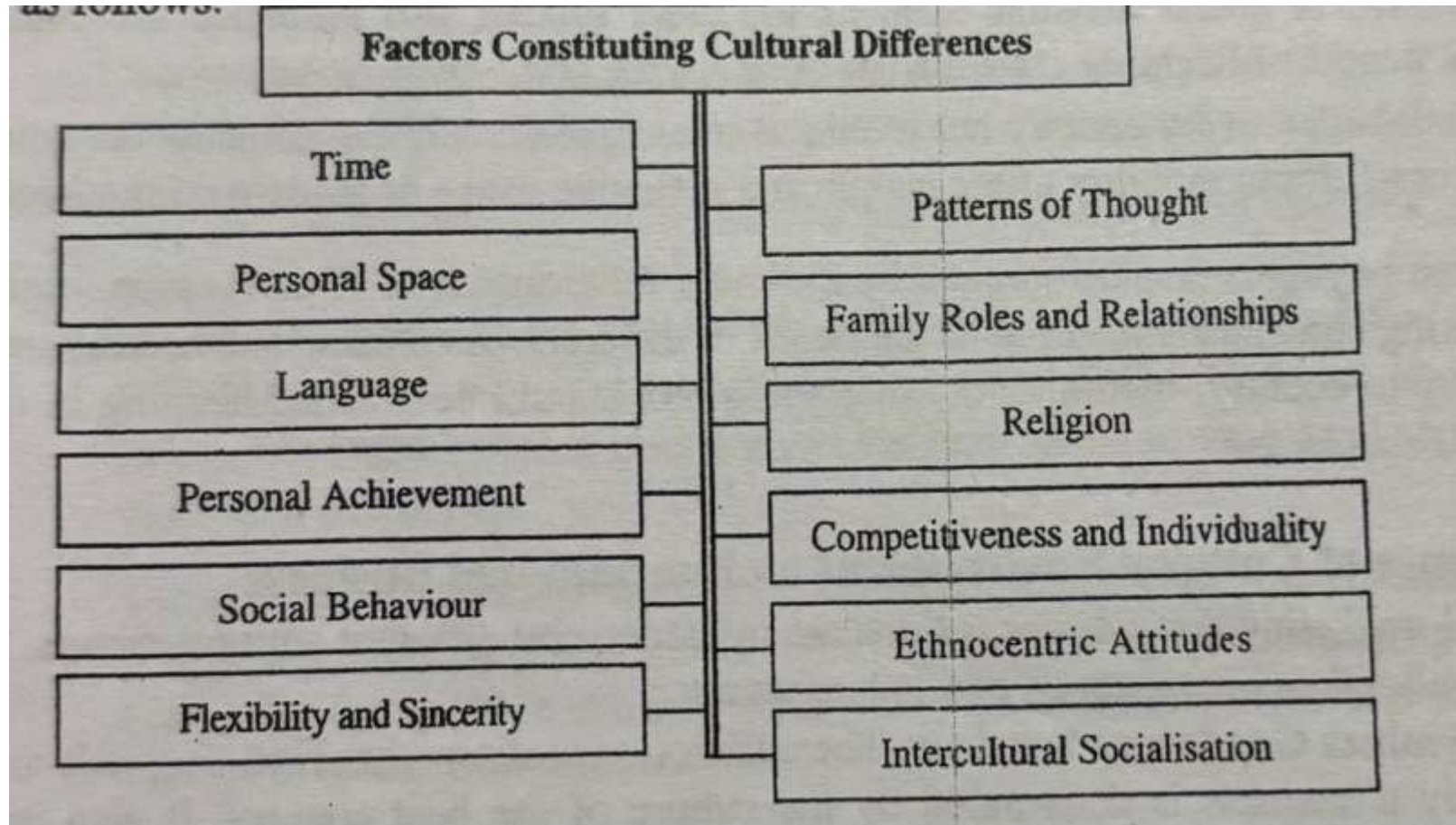
Religion

Social Values and Attitudes

Social Organisation and Class System

- **Ethics and Values** - What is considered ethical in one country may not be the same in another. Understanding these variations ensures smooth business relations.
- **Social Values and Attitudes** - These determine attitudes toward work, success, family, and time. For instance, Western countries value individual achievement, whereas Asian cultures often emphasise collectivism.
- **Social Organisation and Class System** - Societies are structured into classes—upper, middle, and lower—which influence lifestyles, purchasing power, and brand preference.

Factors Constituting Cultural Differences



Cultural differences arise from variations in values, traditions, beliefs, and social behaviour. Key factors include:

➤ **Time Orientation**

- Western nations (USA, Germany, Japan) value punctuality and efficiency (“Time is Money”).
- Others, like India and Latin countries, have a more flexible attitude toward time.

➤ **Patterns of Thought**

- Americans are future-oriented and opportunity-driven.
- Indians and Asians often link the present and future to past traditions.

➤ **Personal Space**

- Westerners prefer maintaining distance during interactions.
- Middle Eastern or Latin cultures are more comfortable with close proximity.

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➤ **Family Roles and Relationships**

- In traditional societies, family roles are well-defined, and elders have authority.
- In Western societies, gender roles are more equal, and decision-making is more individualistic.

➤ **Language**

- Both verbal and non-verbal communication (gestures, tone, facial expressions) vary culturally.
- Example: Bowing in Japan signifies respect; a handshake is common in Western countries.

➤ **Religion** - Religion influences business ethics, holidays, dietary preferences, and even dress codes.

➤ **Personal Achievement**

- Western societies value individual success and financial achievement.
- Eastern societies often measure success through family reputation and harmony.

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➤ **Competitiveness and Individuality**

- The U.S. encourages competition and individual ambition.
- Japan and China emphasise teamwork, patience, and collective success.

➤ **Social Behaviour**

- Customs like gift-giving, eating habits, and greetings differ globally.
- For instance, in China, finishing all food may seem impolite, while in Western cultures it shows appreciation.

➤ **Ethnocentric Attitude**

- Believing one's culture is superior can create disrespect, misunderstanding, and conflict.
- Successful managers adopt a flexible, culturally sensitive mindset.

➤ **Flexibility and Sincerity** - Cross-cultural communication requires patience, empathy, and open-mindedness.

➤ **Intercultural Socialisation** - Encourages understanding and respect for other cultures through exposure and learning.

Importance of Socio-Cultural Environment in International Business

- **National Tastes** - Preferences differ—black shampoo in Thailand, red packaging in Russia, green colour in Arab nations.
- **Language Adaptation** - Companies modify slogans, brand names, and ads for cultural compatibility.
- **Values and Beliefs**
 - Colours and symbols carry different meanings:
 - **White**: mourning in China, purity in Europe.
 - **Green**: sacred in Islam, illness in Malaysia.
 - **Red**: danger in some nations, good luck in others.
- **Demography** - Age, gender ratio, and occupation affect product demand and market segmentation.

- **Literacy Rate** - Higher literacy means greater acceptance of modern, technical products.
- **Female Workforce** - Growing female employment increases independence and new consumption patterns.
- **Double-Income Families** - Demand for convenience goods (fast food, appliances, ready meals) is rising globally.
- **Impulse Buying** - Increasing tendency to buy spontaneously due to attractive promotions and advertising.

Influence of Social Environment on International Business

1. Shapes individuals' attitudes, behaviour, and personality.
2. Determines consumption patterns and product demand.
3. Influences work ethics and attitudes toward authority.
4. Affects decision-making independence.
5. Impacts environmental awareness, consumerism, and corporate social responsibility.
6. Determines knowledge of rights, duties, and governance.
7. Influences product preferences based on social divisions (e.g., caste or class).
8. Globalisation has led to blending of cultural elements across countries.
9. Businesses must align marketing strategies with local customs, beliefs, and aspirations.

Influence of Cultural Environment on International Business

- **Culture Determines Goods and Services** - Cultural norms dictate which products are acceptable (e.g., seafood, meat, or clothing types).
- **Culture Determines Work Attitudes** - Some cultures promote hard work and discipline (e.g., Japan), while others have a relaxed attitude (e.g., Arab countries).
- **Culture and Global Business Practices** - MNCs must adapt product design, colour, packaging, and advertising to fit local cultures.
- **Culture and Competitive Advantage** - Understanding culture helps identify competitors, manage costs, and create a sustainable advantage.
- **Culture and Strategy** - Successful global strategies depend on aligning business practices with cultural expectations while maintaining global consistency.

Ethics in International Business

Meaning

Business ethics refers to the moral principles guiding business behaviour — distinguishing right and wrong actions in business operations.

Definitions

Robert Kreitner: “Business ethics is the study of complex business practices and behaviours that give rise to ethical issues in organisations.”

Types of International Business Ethics

1. **Descriptive Ethics** - Describes actual ethical practices worldwide.
2. **Comparative Ethics** - Compares ethical standards across nations.
3. **Normative Ethics** - Defines moral norms and values that should guide conduct.
4. **Metaethics** - Examines the meaning and origin of ethical terms and principles.

Ethical Values in International Business

1. Responsible use of host nation's natural and human resources.
2. Promote joint ventures and local development.
3. Respect local culture and avoid harmful products.
4. Provide fair treatment, equal pay, and good working conditions.
5. Avoid political interference and bribery.
6. Maintain transparency and ethical accounting.

Ethical Issues in International Business

Issue	Explanation / Example
Export Subsidies	Creates inequality between rich and poor nations.
Bio-Piracy	Exploiting biodiversity of poor nations without fair compensation. (e.g., medicinal plants in India)
Safety & Environment	Ethical dilemma between cost-saving and pollution/safety norms.
Corruption	Bribery banned under U.S. Foreign Corrupt Practices Act; ethical conflicts in cultures where gift-giving is normal.
Consumerism	Selling banned or unsafe products in developing nations.
Transfer Pricing	Manipulating invoicing to evade taxes; unethical though financially beneficial.

Importance of Ethics in International Business

1. **Corresponds to basic human needs** - Ethics ensures respect, fairness, and compassion meeting people's emotional and social needs. Example: Paying fair wages and ensuring worker safety.
2. **Ethics and profits go together in the long run** - Ethical practices build trust and reputation, which attract loyal customers and sustainable profits. Example: TATA's honesty builds customer trust and lasting profits.
3. **Ethics succeeds where law fails** - Laws can't cover every situation; ethics guides behavior in grey areas. Example: A company apologizing for poor service though not legally required.
4. **Enables better decision-making and stakeholder confidence** - Ethical reasoning helps leaders make fair, transparent, and sustainable choices. Example: Manager honestly discloses product defects to customers.
5. **Improves cooperation and moral values** - Ethical culture fosters teamwork, respect, and shared responsibility. Example: Ethical culture promotes teamwork and respect among employees.

Ethical Behaviour of Employers

- Builds trust, motivation, and morale.
- Creates a positive company image.
- Prevents unethical practices and reduces errors.
- Encourages teamwork and cooperation.

Examples:

- Starbucks: Eco-friendly operations, employee welfare.
- Intel: STEM education support, employee rotation.
- Microsoft: Philanthropy, TEALS programme for education.

International Codes of Business Conduct

- **UN Code of Conduct for Transnational Corporations (1983)**
 - Respect sovereignty, laws, and culture of host nations.
 - Avoid corruption and anti-competitive practices.
- **OECD Code (1976)** - Encourage fair competition, technology transfer, fair wages, and transparency.
- **ILO Declaration (1977)** - Focuses on labour rights, vocational training, and working conditions.
- **Social Accountability International (SAI) – SA 8000** - Certification for ethical labour practices; promotes social compliance.
- **Global Reporting Initiative (GRI)** - Framework for sustainability reporting on economic, social, and environmental impacts.
- **Institute for Social and Ethical Accountability (ISEA) – AA1000** - Assesses firms' ethical commitments and stakeholder engagement.

Corporate Social Responsibility (CSR) in International Business

Meaning

CSR refers to a company's responsibility toward society and environment beyond profit-making — a way to “give back” to society.

Tools of CSR

- Accountability: Transparent reporting and auditing.
- Codes of Conduct: Ethical guidelines for behaviour.
- Fair Trade: Equitable treatment for producers.
- Social Accountability (SA 8000): Compliance with social standards.
- Socially Responsible Investing (SRI): Investing in ethical enterprises.
- Global Reporting (GRI): Sustainability reporting standards.

Arguments for CSR in MNCs

1. Changed Public Expectations – Society demands ethical practices.
2. Better Business Environment – Social responsibility ensures stability.
3. Improved Public Image – Builds goodwill and customer trust.
4. Avoids Government Regulation.
5. Balances Power with Responsibility.
6. Businesses Have Resources – Expertise, funds, and manpower.
7. Let Business Try – Businesses can solve social problems effectively.
8. Moral Responsibility – Correct to give back to society.
9. Citizenship Argument – Corporations are “social citizens.”
10. Duty of Gratitude – Give back to the society that supports them.
11. Prevention is Better than Cure – Early CSR prevents social unrest.

Arguments against CSR in MNCs

Argument	Explanation
Profit Maximization	Businesses should focus on earning profits, not solving social issues.
Society Bears the Cost	CSR expenses are passed on to consumers.
Lack of Social Skills	Managers are trained in business, not social work.
Business Has Enough Power	CSR may give too much influence to corporations.
Social Overhead Cost	CSR increases operating costs, reducing competitiveness.
Lack of Accountability	Business leaders are not directly answerable to the public.