Course: BBA Part III

Paper: XV

Topic: International Business

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What is International Business?

International business encompasses all commercial activities that take place to promote the transfer of goods, services, resources, people, ideas, and technologies across national boundaries.

International business occurs in many different formats:

- The movement of goods from country to another (exporting, importing, trade)
- Contractual agreements that allow foreign firms to use products, services, and processes from other nations (licensing, franchising)
- The formation and operations of sales, manufacturing, research and development, and distribution facilities in foreign markets

The study of international business involves understanding the effects that the above activities have on domestic and foreign markets, countries, governments, companies, and individuals. Successful international businesses recognize the diversity of the world marketplace and are able to cope with the uncertainties and risks of doing business in a continually changing global market.

An international businesses strategy, organization, and/or functional decisions categorize it as:

- A multi-domestic company with independent subsidiaries that act as domestic firms; OR
- Global operations with integrated subsidiaries; OR
- A combination of the two

The challenging aspect of international business, however, is that many firms combine aspects of both multi-domestic and global operations:

Multi-domestic **–** A strategic business model that involves promoting products and services in various markets around the world and adapting the product/service to the cultural norms, taste preferences and religious customs of the various markets.

Multinational **–** A business strategy that involves selling products and services in different foreign markets without changing the characteristics of the product/service to accommodate the cultural norms or customs of the various markets.

The Benefits of International Business and the Concept of Comparative Advantage

Participation in international business allows countries to take advantage of their *comparative advantage.*

The concept of comparative advantage means that a nation has an advantage over other nations in terms of access to affordable land, resources, labor, and capital. In other words, a country will export those products or services that utilize abundant factors of production. Further, companies with sufficient capital may seek another country that is abundant in land or labor, or companies may seek to invest internationally when their home market becomes saturated.

Participation in international business allows countries to take advantage of specialized expertise and abundant factors of production to deliver goods and services into the international marketplace. This has the benefit of increasing the variety of goods and services available in the marketplace.

International business also increases competition in domestic markets and introduces new opportunities to foreign markets. Global competition encourages companies to become more innovative and efficient in their use of resources.

For consumers, international business introduces them to a variety of goods and services. For many, it enhances their standard of living and increases their exposure to new ideas, devices, products, services, and technologies.

Key Differences Between Domestic and International Business

The most important differences Between domestic and international business are classified as under:

1. Domestic Business is defined as the business whose economic transaction is conducted within the geographical limits of the country. International Business refers to a business which is not restricted to a single country, i.e. a business which is engaged in the economic transaction with several countries in the world.
2. The area of operation of the domestic business is limited, which is the home country. On the other hand, the area of operation of an international business is vast, i.e. it serves many countries at the same time.
3. The quality standards of products and services provided by a domestic business is relatively low. Conversely, the quality standards of international business are very high which are set according to global standards.
4. Domestic business deals in the currency of the country in which it operates. On the contrary, the international business deals in the multiple currencies.
5. Domestic Business requires comparatively less capital investment as compared to international business.
6. Domestic Business has few restrictions, as it is subject to rules, law taxation of a single country. As against this, international business is subject to rules, law taxation, tariff and quotas of many countries and therefore, it has to face many restrictions which are barriers in the international business.
7. The nature of customers of a domestic business is more or less same. Unlike, international business wherein the nature of customers of every country it serves is different.
8. Business Research can be conducted easily, in domestic business. As against this, in the case of international research, it is difficult to conduct business research as it is expensive and research reliability varies from country to country.

9. In domestic business, factors of production are mobile whereas, in international business, the mobility of factors of production are restricted.