

INTERNATIONAL BUSINESS ENVIRONMENT

Natural Business Environment:

The environment of international business recorded as a sum of total all external forces are working upon the firm as it goes about its affairs in foreign and domestic markets.

The environment can be classified in terms of domestic, foreign, and international spheres of impact.

The domestic environment is familiar to managers and consists of those uncontrollable external forces that affect the firm in its market.

The foreign environment can be taken as those factors which operate in those other countries within which the MNC operates.

The international environment is conceived as the interaction between domestic and foreign factors and indeed they cover a wide spectrum of forces.

Forces of International Business Environment:

- Political
- Legal
- Economic
- Cultural
- Technological

POLITICAL ENVIRONMENT:

Political environment reference to the influence of the system of Government and judiciary in a nation on international business. System of government in a nation wields considerable impact on its business. The type and structure of government prevailing in a country decides, promotes, fosters, increases, shelters, directs, and controls the business of that country.

Political Systems:

1. Democracy : Democracy refers to a political arrangement in which the supreme Power is vested in the people. Democracies maintain a stable business environment primarily through laws protecting intellectual property rights. The so-called Asian tigers, Hong Kong, Singapore, South Korea and Taiwan for example best strong market economics in the absence of democratic practices

2. Totalitarianism: Totalitarianism also called authoritarianism, individual freedom is completely subordinate to the power of the authority of state and concentrated in the hands of one person or a small group which is not constitutionally accountable to the people. The doctrines of fascism and erstwhile communism examples of totalitarianism.

Types of totalitarianism:

1. *Theocratic*: Country's religious leaders are also its political leaders, its political system is called a theocracy. Religious leaders frame and enforce laws and regulations that are based on religious beliefs. A political system that is under the control of religious leaders is theocratic totalitarianism. Afghanistan, some Sheikh's of the Middle East and Iran are the countries which have such a political dispensation

2. *Secular*: A political system in which political leaders are guided by military and urea cratic power is called secular totalitarianism. In such a system the military controls the government and makes decisions which seems to be in the best interest of the country and example is Pakistan. They were also found in several Asian countries particularly South Korea, Taiwan, Singapore, Indonesia and the Philippines

3. *Tribal*: A third form of totalitarianism is tribal totalitarianism. This exists principally in African countries such as Zimbabwe, Tanzanial, Uganda and Kenya. Tribal totalitarianism occurs when a political party that represents the interest of a particular tribe monopolises power

Political Risks:

Corporates face political risk when they conduct business with the outside world. Political risk any government action or politically motivated event that would adversely affect the long-term profitability or value of a firm. It can threaten the market of an exporter the production facilities of a manufacturer or the ability of a firm to repatriate its profits from your host country to its home country.

Political risk varies from nation to nation. It is very high in countries like Yugoslavia, Turkey, Iraq, Algeria, Sudan, Nigeria, Somalia, Congo, Angola, Myanmar and Indonesia. On the other hand it is almost non existent in the US, Canada, Denmark, Australia, and West European countries

Types of Political Risks:

1. *Macro Political Risk*: It affects all international business in the same way. Expropriation, the seizure of assets by the government with little or no no compensation to the owners is called macro political risk.

2. *Micro Political Risk*: It affects specific foreign businesses. Micro political risks include industry regulations, taxes, kidnapping and terrorist threats. Firms which have high visibility in host countries are targets of micro political risk. Examples like Pizza Hut, KFC.

Managing Political Risk:

International business employed different methods for managing political risk. Major two are:

1. *Avoiding Investment*: The simplest way to manage political risk is to avoid investing in a country ranked higher on such risks. Where investment has been already made plants may be wound up transferred to some other country which is considered to be relatively safe. This may be a poor choice as the opportunity to do business in a country will be lost

2.Adaptation: another way of managing political risk adaptation. It means incorporating risk into business strategies.MNC's incorporate risk by means of the following three strategies; local equity and debt, development assistance and insurance.

Ways of Managing Political Risk:

1.Local Equity and Debt: Involves financing subsidiaries with the help of local firms, trade unions, financial institutions and government. Localisation entails modifying operations, product mix, or any such activity to suit local tastes and culture.

2.Developmental Assistance: The offering of development assistance are laws and international business to assist the host country in improving its quality of life.Since the firm and the nation become partners, both stand to gain.

3.Insurance: This is the last means of adaptation. Companies buy insurance against the potential effects of political risk. Some policies protect companies when the host government restricts the convertibility of their currency into parent country currency. Others insure against losses created by violent events, including war and terrorism.

LEGAL ENVIRONMENT:

Legal environment refers to the legal system obtaining in your country the legal system then refers to rules and laws that regulate behaviour of individuals and organisations.

The legal system of a country is of immense importance to international business. The country's law regulates business practice, defines the manner in which business transactions are to be carried out and set down the rights and obligations of those involved in business deals.

Systems of Law:

1.Islamic Law: Islamic law is derived from the interpretation of the Quran and teachings of prophet Mohammad the word Islam translate into English as 'submission' or 'surrender'. The idea of laws in Islamic societies is quite different from that in most western cultures.Among the Unique aspects of Islamic law is the prohibition of paying or receiving interest. prohibiting receipt and payment of interest is the nucleus of the Islamic system. Regional courts can interpret Islamic law from the view point of fundamentalists or they may use your most liberal translation.

2.Socialist Law: this law evolves from the Marxist socialist system and continues to influence regulations in the former communist countries particularly former Soviet Union as well as percentage China, Cuba, North Korea. Ideology plays a crucial role in socialist law, which can be used by governments of widely different political viewpoints, socialist legal codes are designed to achieve personal and societal transformation. The legal system is not just a set of institutions but means to achieve a communist society, where it gives according to his/her abilities and takes according to his/her needs.

3. Common Law: it is the foundation of legal system in the US Canada England Australia New Zealand India and many other countries it was based on the tubular to wisdom of purchase decisions in individual cases in common law countries was areas of law such as contract torts an agency or controlled by a collection of principles that used from specific disputes resolved in an adversary process the key concept of common law is that similar dispute should achieve similar legal results.

4. Civil Law: The Civil Law system, also called your codified legal system, is based on a detailed set of laws that make up a code. Rules for conducting business or a part of court. Over 70 countries including Germany, France and Japan follow civil law. The civil law system originated with the Romans in the ancient times who spread throughout the Western world. Action between common law and code law systems becomes more pronounced in protecting intellectual property.

5. Comparative Law: Comparative Law is not a source of the system of Liberty emerging discipline that examines differences between legal systems prevailing in different countries. Before a manager is posted on a foreign assignment, he or she is brief about the host country's legal system. International manager needs to know how the laws of one country compare with those obtained in another nation. The comparison of foreign criminal law is also important to business people who find themselves under the control of a foreign Government and accused of crimes.

MNC and legal environment:

Intellectual Property: Property that results from people's intellectual talent and abilities is called intellectual property and includes designs novels patents trademarks copyrights computer software and secret formula such as the one used for making coca cola.

A patent grants the inventor of your new product or process exclusive rights of manufacture, use or sale of the invention. Copyrights are the exclusive legal rights of authors, composers, authors and publishers to publish and work as they wish.

Product Liability & Safety: Most countries have laid down product safety laws which bind manufacturer to produce safe products. Product liability holds manufacturers and sellers responsible for damage or injury or death caused by the different products. Affected parties can sue both for monetary compensation to civil lawsuits, or imprisonment through criminal lawsuits. Civil laws are frequently settled before cases filed in courts.

Competition among business: Competition laws are enforced to break monopolies and protect consumer interests. It is a truism that consumer interests are better protected by encouraging competition among manufacturers and sellers of products. In India there is the Competition Law. Other countries too have antitrust laws. The US has antitrust legislation, as also in Germany. In Japan, the Fair Trade Commission enforces antitrust laws. From South Korea to Brazil to the Czech Republic, all countries have enacted competition laws.

Contracts: A contract is an agreement by the parties concerned to establish a set of rules to govern a business transaction. Contract law plays a major role in international business transactions because of the complexities arising from the differences in the legal systems of participating countries and because the host government in many developing and communist countries is often a third party in the contract. Both common law and civil law countries enforce contracts, although their means of resolving disputes differ. Under civil law, it is assumed that a contract reflects promises that will be enforced without specifying the details in the contract; under common law, the details of promises must be written into the contract to be enforced.

Advertising & Sales Promotion: Multinational businesses spend huge sums across the globe for advertising their products. Like advertising and domestic markets, they are temptations to make exaggerated claims and tell untruths while conveying messages about the product to be sold in international markets. Almost all nations have laws to prevent such false claims.

Carriage of goods: Another area of concern to international business units the carriage of goods across countries. There are three subjects relevant to the carriage of goods in international business, they are (1) the liability of international carriers, (2) the liability of ocean carriers and (3) issue in maritime and marine cargo insurance law.

Environmental Laws: International environmental law has lately become a topic of considerable interest due to large scale international environmental disasters such as oil tankers spills, nuclear power plant disaster, chemical spill into the river etc. Consequently, Nations have enacted legislation and entered into treaties concerning the environment before listening these acts and treaties, it is useful to understand certain ethical issues concerning the environment

TECHNOLOGICAL ENVIRONMENT:

Technological environment like its counterparts, political-legal wields considerable influence on international business. Technology systematic application of scientific or other organised knowledge to practical tasks. Technology is a most dramatic force shaping the destiny of people all over the world. Some of their technological inventions man feels, are wonders, some others are horror, and yet others have mixed blessing

Impacts of Technology:

The impact of technology in general is discussed under three heads (1) technology and society (2) technology and economy and (3) plant level impacts.

(1) Technology and society:

(i) *High expectations of consumers;* Technology has contributed to the emergence of affluent societies and citizens expect more of many things than of the same things new variety of products superior in quality free from pollution, more safe or more comfortable or produced and supplied to the following sections.

(ii) *System Complexity*: Technology has a certain complexity. Modern machines work better and faster no doubt but if the same then need the services of experts for repair. They fail often because of their complexity it is possible the technology might eventually lead to simplicity and small independent operational units. Management is therefore under pressure to keep the whole system working all the time.

(iii) *Social change*: the role of Technology in social change may be observed in more than one way. There is the change in social life, which results from a change in a technological process and invention may destroy the economic basis of a city, displace thousands of workers, yet the same invention may result in the creation of new city somewhere else and create even more jobs than it originally destroyed. Hence, technological changes was socially uprooted in search of new centres of employment

(2) Technology and economy:

(i) *Increased Productivity*: The most fundamental effect of Technology is greater productivity in terms of both quality and quantity is a biotechnology at all levels adopted as a result of productive improvements and wages of employees tends to rise in price of some product is in which place beneficial economic effects of technology throughout whole the social system

(ii) *Need to spend on R&D*: research and development assumes considerable relevance in in organisation as technology advances companies R and D intensity is a principle means of gaining market share in global competition. The process of taking new technology from the laboratory to the marketplace is equally important this transfer takes longer time as operation for in size today's also most important and guarantee companies can no longer assumed that competitors will Alok them that time needed to recoup their investment

(iii) *Jobs become intellectual*: With the advent of Technology jobs tend to become more intellectual or upgraded. Government and businessmen should demonstrate and convince the people that economic growth is more and insurance against unemployment then opposition to technological advancement.

(iv) *Rise & decline of products & firm*: change of Technology a norm not an exception another problem to business. A new technology is born imager industry but it may also destroying an existing one.

(3) Plant level implications:

(i) *Technology and Organisation structure*: Technology has considerable influence on organisation structure length of the line of command and span of control of the chief executive. Where companies use technology which is fast changing matrix structures are more common. Advancement in organisation will result in expanded availability of a range of products and services, substitution of capital for labour, increases in sales, initiation of changes in behaviour among customers, suppliers , employees and society etc.

(ii) *Resistance to change*: resistance to change stems from the following reasons:

- Sai College girl and social commitments for existing products, process and Organisation
- Sizeable capital investments in long-life single use facilities
- Low profits and reduced rate of growth
- Small size of fragmented activities & complacent top management
- Lack of successful entrepreneurial models to emulate and
- Powerful labour assistance to changes in methods

Implication of tech in MNCs:

- E-commerce
- Telecommunication
- Transportation technology
- Globalisation of Production
- Globalisation of markets

CULTURAL ENVIRONMENT:

The word culture generally refers to the patterns of human activity and the symbolic structures that give such activities significance. Culture consists of specific learned norms based on attitudes, values, and beliefs all of which exist in every society.

When doing business abroad, a company should first determine whether the usual with these characters in a foreign country differs from its home-country experience. Understanding the cultures of groups of people is useful because business employs, sells to, buy from, is regulated by and is owned by the people

Levels of Culture:

(1) *National Culture*: National culture is the dominant culture within the political boundaries of a country. Formal education is usually taught and business is generally conducted in the language of the dominant culture. Most international businesses take place within the constraints of political boundaries of the nation-state. As such, the dominant culture of the nation-state probably has the greatest impact on international business. In particular, it usually influences not only the language of business transactions but also the nature and types of law that govern business.

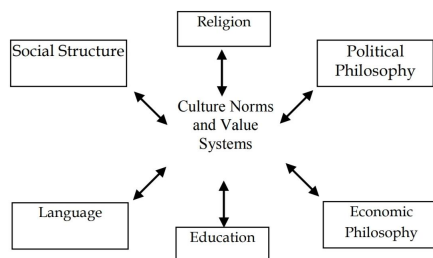
(2) *Business Culture*: Business culture also provides the guides for everyday business interactions. Every nation culture has its own business culture the more pervasive national cultures constrain and guide the development of business culture in a society examples include the period is given to age and seniority, the role expectations of women, and expectations concerning treatment of subordinates by bosses

(3) *Occupational and Organisational Culture*: It has been observed that organisation specific and occupation specific cultures tend to develop within National and business culture.

Organisational culture refers to the philosophies, ideologies, values, assumptions, beliefs, attitudes, norms that an organisation shares employees.

Occupational groups such as efficient processes lawyers etc have a distinct culture called occupational culture. The occupational cultures are the norms, beliefs, expected ways of behaving of people in the same occupational groups of which they work for.

Determinants/Elements of Culture:



(1) *Language*: Language is the foundation of any culture. it is an abstract system of words, meanings and symbols for all aspects of culture. Language includes speech, written characters, numerals, symbols, and gestures of non-verbal communication

(2) *Religion*: religion refers to a specific and institutionalised set of beliefs and practices generally agreed upon by a number of persons or sects. There are 1,00,000 religions across the globe, but the major ones among them are Hinduism Christianity Islam Buddhism and Jainism. Each one has its own distinct characteristics and follows. In modern democracies, elections are fought on issues relating to religion. Religion has its impact on the economy of a country

(3) *Education*: Formal education plays a key role in a society. It is a medium through which individuals learn many of the language conceptual skills and mathematical skills that are indispensable in modern society.

(4) *Social Structure*: it refers to basic social organisations. Two dimensions are particularly important when explaining the difference between cultures. First is the degree of which the basic unit of social organisation is individual, while group tends to figure much larger and many other societies. Second is the degree to which a society is stratified into classes or castes.

ECONOMIC ENVIRONMENT:

The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

Kinds of Economies:

(1) *Market Economy*: In a market economy, also called capitalism. In the market economy system, the decision to produce and distribute goods is taken by the individual firms based on the forces of demand and supply. The means and factors of production are owned by the individuals and firms and they behave according to the market forces.

Market economy requires fulfillment of certain conditions they includes:

- Trust in banks insurance, companies, suppliers, etc.
- Balancing competition with cooperation (for a safe workplace and a cleaner environment)
- Honesty in government & law and order enforcement
- Freedom of information and flow of information without restrictions or favoritism
- Materialistic values as a stimulus to greater production

(2) *Command Economy*: Also called socialism, in a command economy, planning is a must. Decisions related to all economic activities-what to produce, how to price are determined by the economy, a central government plan. In fact, in a pure command economy, the tools of productions are organised, managed, and owned by the government with the benefits accruing to the public. Consistent with collective ideology, the objective of command economy is for government to own and run business for the good of society

(3) *Mixed Economy*: this false midway between a market economy and a command economy largely followed in France India Italian Sweden mixed economics admit exercise of private sector along with the government ownership this economy set up under the philosophy of the followings

- Production distribution or entirely managed and controlled by state and private enterprise
- Sectors in which the private enterprise has complete access subject only to the general control and the regulation of state