

2. Business environment

- There are numerous types of business environments, however the political, the cultural, and the economic environments are the prime ones.
- These factors influence the decision-making process of an international business firm.
- It is important to note that the types of environments we discuss here are interlinked;

2.1- The Political Factors

- The political environment of a nation affects the legal aspects and government rules which a foreign firm has to experience and follow while doing business in that nation.
- There are definite legal rules and governance terms in every country in the world.
- A foreign company that operates within a particular country has to abide by the country's laws for the duration it operates there.

- There are four major effects of political environment on business organizations –
- **Impact on Economy** – The political conditions of a nation have a bearing on its economic status. For example, Democratic and Republican policies in the US are different and it influences various norms, such as taxes and government spending.
- **Changes in Regulation** – Governments often alter their decisions related to business control. For example, accounting scandals in the beginning of the 21st century prompted the US security of exchange commitments turn more mindful on the issues of corporate compliance.

- **Political Stability** – Political stability effects business operations of international companies. An aggressive takeover overthrowing the government could lead to a disordered environment, disrupting business operations. For example, Sri Lanka's civil war and Libya and Syria disturbances were overwhelming for businesses operating there.
- **Mitigation of Risk** – There are political risk insurance policies that can mitigate risk. Companies with international operations leverage such insurances to reduce their risk exposure.

2.2- The Economic Factors

- Economic factors exert a huge impact on international business firms. The economic environment includes the factors that influence a country's attractiveness for international business firms.
 - Business firms seek **predictable, risk-free, and stable mechanisms**.
 - If an economy fosters growth, stability, and fairness for prosperity, it has a positive effect on the growth of companies.
 - Inflation contributes hugely to a country's attractiveness. High rate of inflation increases the cost of borrowing and makes the revenue contract in domestic currency. It exposes the international firms to foreign-exchange risks.

- Absolute purchasing power parity is also an important consideration. The ratio of exchange rate between two particular countries is identical to the ratio of the price levels. The law of one price states that the real price of a product is same across all nations.

2.3- The Cultural Factors

- Cultural environments include educational, religious, family, and social systems.
- Knowledge of foreign culture is important for international firms.
 - **Customs and Taboos** – It is important to know the customs and taboos to learn what is acceptable and what is not.
 - **Time** – Punctuality and deadlines are routine business practices in the U.S. However, Middle East and Latin American people are far less bound by time constraints.
 - **Religious Beliefs** – Religion can affect a product's labelling, designs, and items purchased. It also affects the consumers' values.