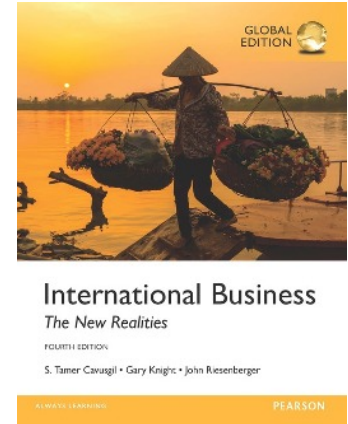


Part 1

Foundation Concepts

Chapter

1



Introduction: What is International Business?

Presented by
Prof. Dr. Zafar Uddin Ahmed

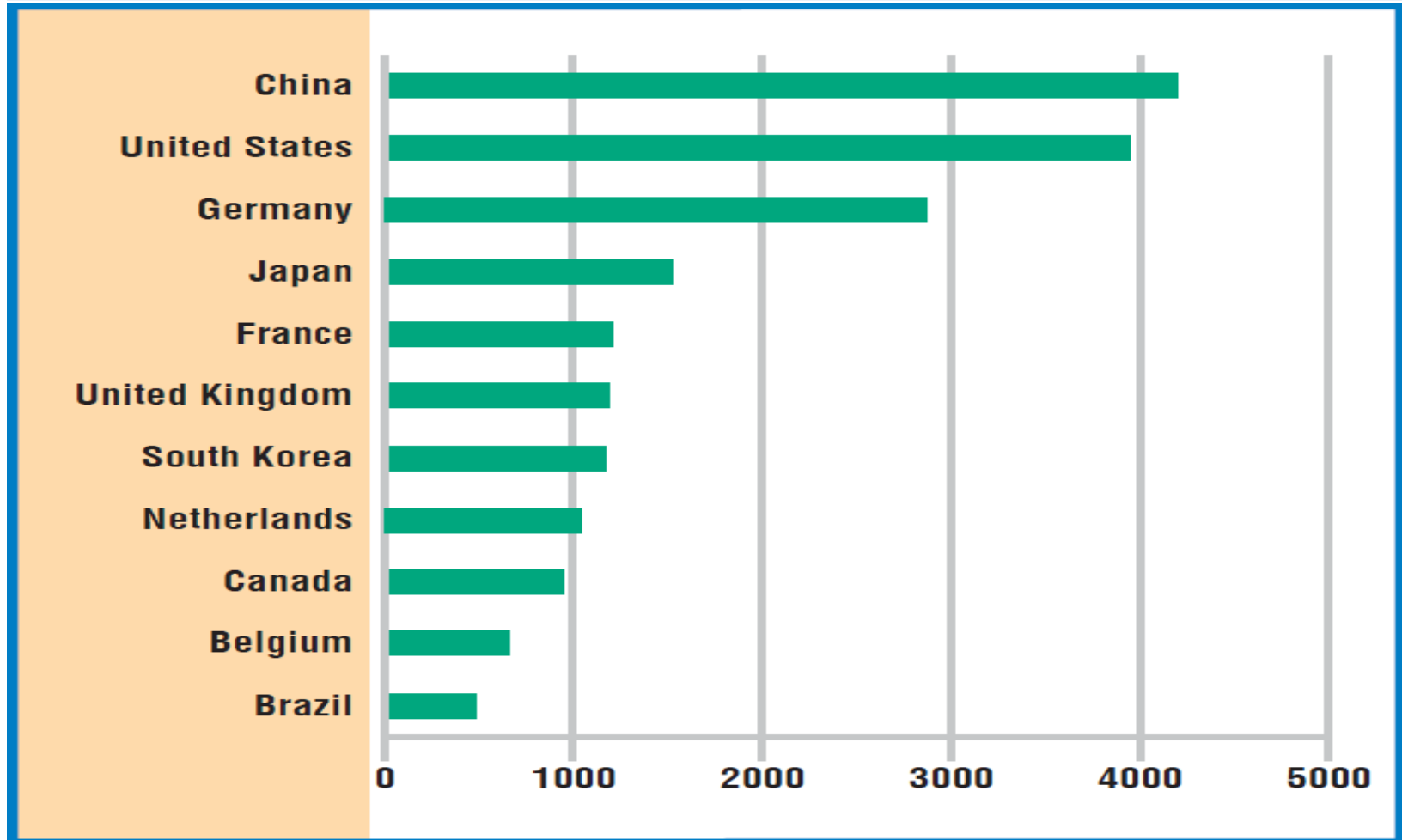
Globalization of Markets

- *Unprecedented growth of international trade.* In 1960, global trade was \$100 billion per year. Today, world exports amount to some \$18 trillion annually!
- *Trade between nations, accompanied by substantial flows of capital, technology, and knowledge.*
- *Development of sophisticated global financial systems and mechanisms* that facilitate the cross-border flow of products, money, technology, and knowledge.
- *Greater collaboration among nations* through multilateral regulatory agencies such as the World Trade Organization (WTO; www.wto.org) and the International Monetary Fund (IMF; www.imf.org).

The 'Flows' of International Business



Leading Countries in International Merchandise Trade, by Total Annual Value, \$Billions



(a) Total annual value of products trade (exports + imports) in billions of U.S. dollars

Sources: Based on data from the World Bank, *World Development Indicators*, World Bank, Washington, DC, 2015 (www.worldbank.org); World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2015), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2015), www.unctad.org.

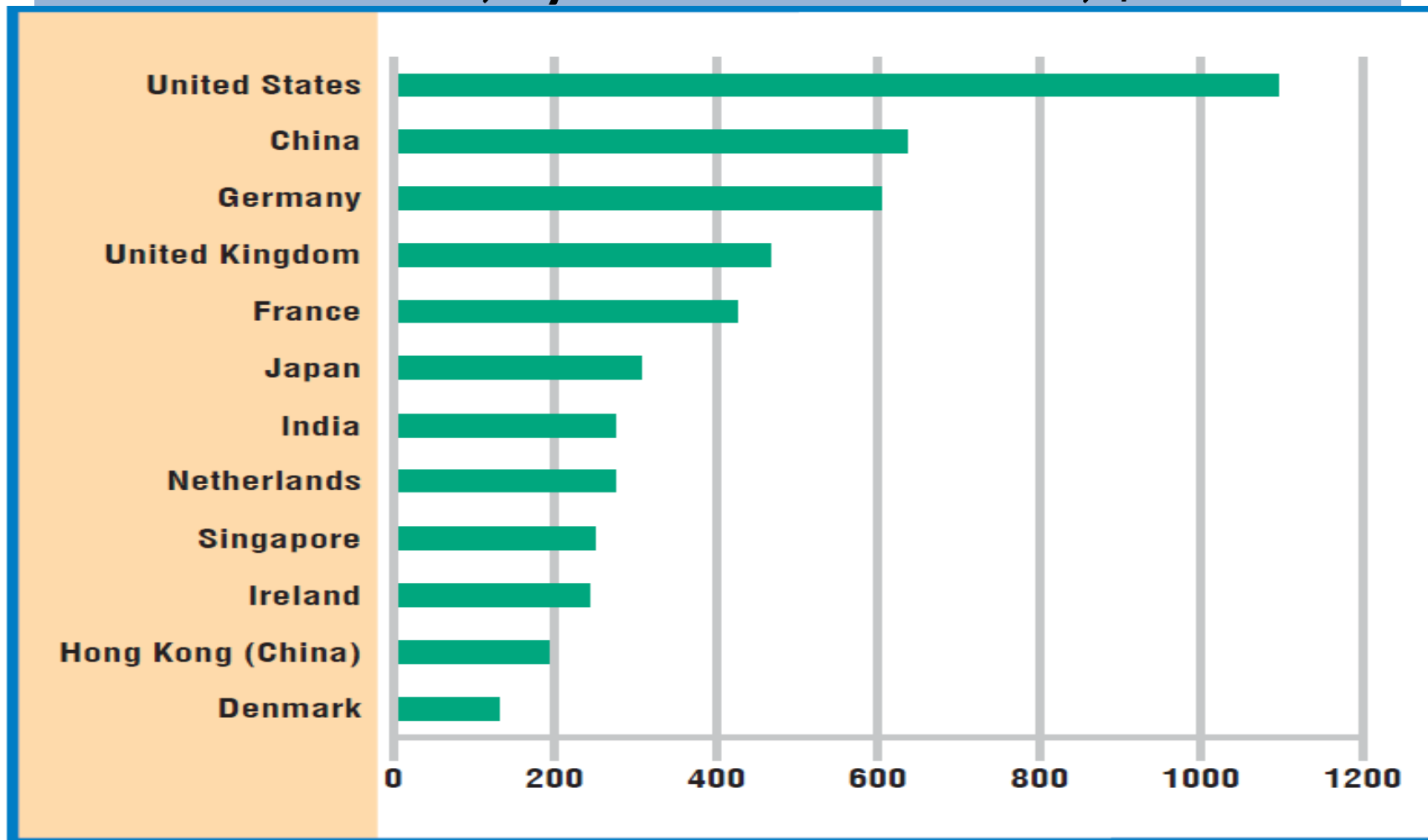
Service Industries that are Rapidly Internationalizing

<i>Industry</i>	<i>Representative Activities</i>	<i>Representative Companies</i>
Architectural, construction, and engineering	Construction, power utilities, design, engineering services, for airports, hospitals, dams	ABB, Bechtel Group, Halliburton, Kajima, Philip Holzman, Skanska AB
Banking, finance, and insurance	Banks, insurance, risk evaluation, management	Bank of America, CIGNA, Barclays, HSBC, Ernst & Young
Education, training, and publishing	Management training, technical training, language training	Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, Elsevier
Entertainment	Movies, recorded music, Internet-based entertainment	Time Warner, Sony, Virgin, MGM
Information services	E-commerce, e-mail, funds transfer, data interchange, data processing, computer services	Infosys, EDI, Hitachi, Qualcomm, Cisco
Professional business services	Accounting, advertising, legal, management consulting	Leo Burnett, EYLaw, McKinsey, A.T. Kearney, Booz Allen Hamilton
Transportation	Aviation, ocean shipping, railroads, trucking, airports	Maersk, Santa Fe, Port Authority of New Jersey, SNCF (French railroads)
Travel and tourism	Transportation, lodging, food and beverage, aircraft travel, ocean carriers, railways	Carlson Wagonlit, Marriott, British Airways



Source: Based on International Trade Administration, Washington, DC: U.S. Department of Commerce.

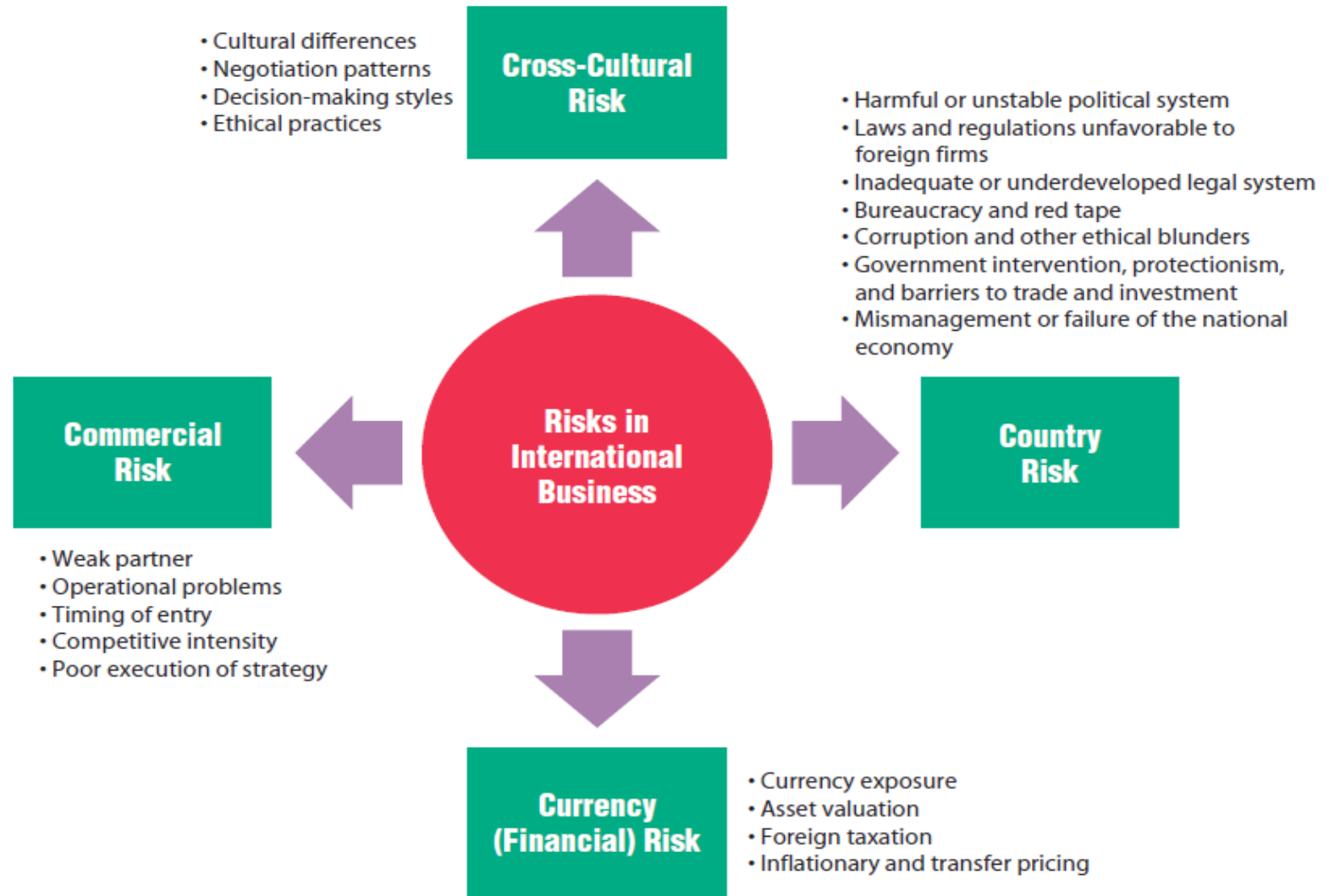
Leading Countries in International Services Trade, by Total Annual Value, \$Billions



(a) Total annual value of services trade (exports + imports) in billions of U.S. dollars

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2015), www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2015), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2015), www.unctad.org.

The Four Risks of International Business



Cross-Cultural Risk

- **Cultural Differences.** Risk arising from differences in language, lifestyle, attitudes, customs, and religion, where a cultural miscommunication jeopardizes a culturally-valued mindset or behavior.
- **Negotiation Patterns.** Negotiations are required in many types of business transactions. e.g., Where Mexicans are friendly and emphasize social relations, Americans are assertive and get down to business quickly.



Cross-Cultural Risk (cont'd)

- **Decision-Making Styles.** Managers make decisions continually on the operations and future direction of the firm. For example, Japanese take considerable time to make important decisions. Canadians tend to be decisive, and “shoot from the hip”.
- **Ethical Practices.** Standards of right and wrong vary considerably around the world. For example, bribery is relatively accepted in some countries in Africa, but is generally unacceptable in Sweden.

Ethical Connections

- In the fashion industry, hundreds of factory workers die annually from dangerous working conditions.
- In the production of faded denim jeans, thousands of garment workers develop deadly lung diseases from constant exposure to crystalline silica used to sandblast jeans to give them the worn, vintage look.
- Illegal in Europe and the United States, such production methods are still widely used in low-income countries, from where the jeans are then distributed to affluent consumers worldwide.

Source: G. Brown, "Fashion Kills: Industrial Manslaughter in the Global Supply Chain," EHS Today, September 2010, p. 59.

Country Risk (Political Risk)

- Government intervention, protectionism, and barriers to trade and investment.
- Bureaucracy, red tape, administrative delays, corruption.
- Lack of legal safeguards for intellectual property rights.
- Legislation unfavorable to foreign firms.
- Economic failures and mismanagement.

Examples

- The U.S. imposes tariffs on imports of sugar and other agricultural products.
- Doing business in Russia often requires paying bribes to government officials.
- Venezuela's government has interfered much with the operations of foreign firms.
- Argentina has suffered high inflation and other economic turmoil.

Currency Risk (Financial Risk)

- **Currency exposure.** General risk of unfavorable exchange rate fluctuations.
- **Asset valuation.** Risk that exchange rate fluctuations will adversely affect the value of the firm's assets and liabilities.
- **Foreign taxation.** Income, sales, and other taxes vary widely worldwide, with implications for company performance and profitability.
- **Inflation.** High inflation, common to many countries, complicates business planning, and the pricing of inputs and finished goods.

Examples

- The Japanese yen has fluctuated a lot since 2000.
- The U.S. has relatively high corporate income taxes.
- Brazil and Turkey have experienced very high inflation.

Commercial Risk

- **Weak partner**
- **Operational problems**
- **Timing of entry**
- **Competitive intensity**
- **Poor execution of strategy**

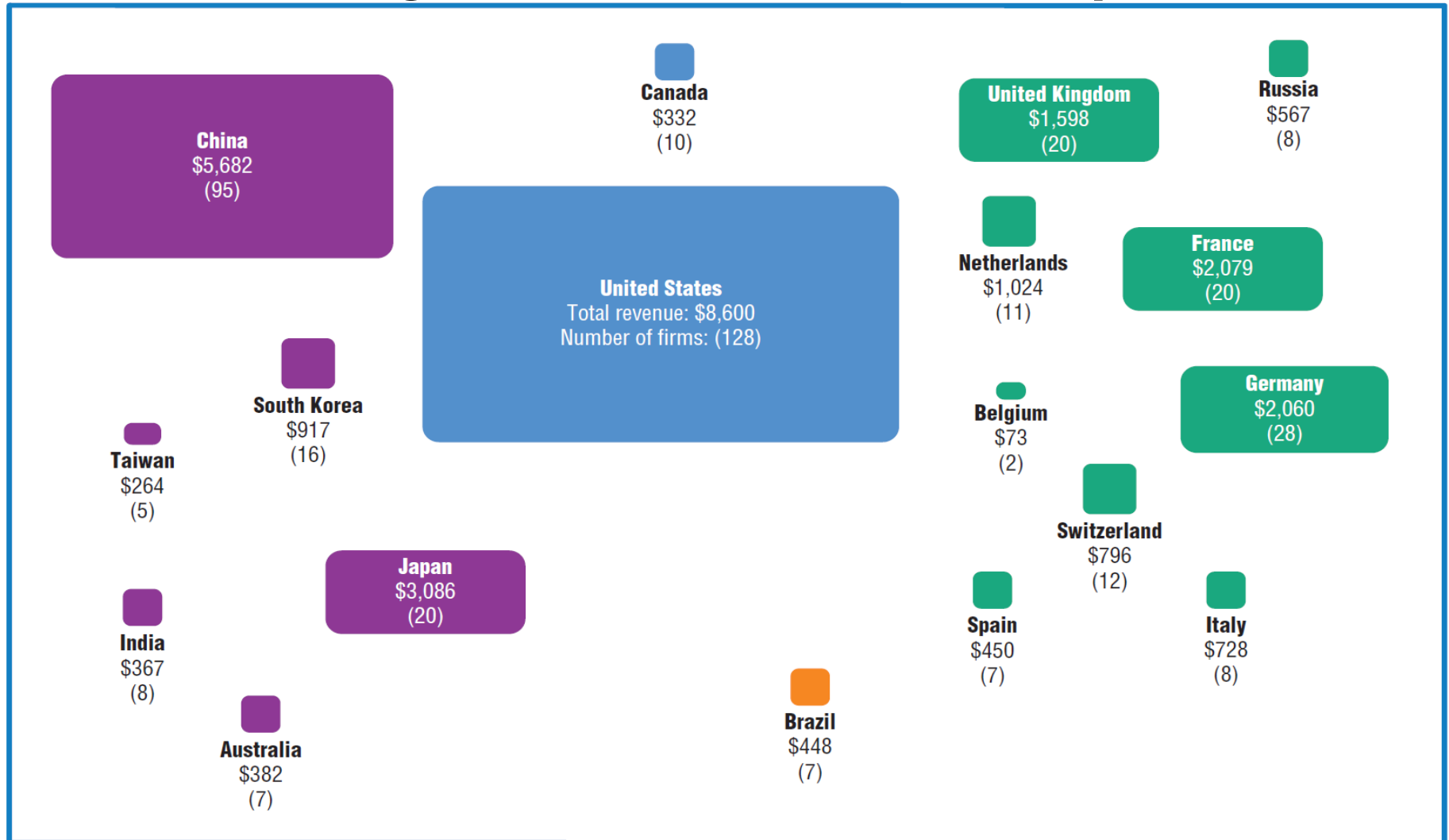


General commercial risks such as these lead to sub-optimal formulation and implementation of the firm's international value-chain activities.

Who Participates in International Business?

- **Multinational enterprise (MNE):** A large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries. e.g., Caterpillar, Samsung, Unilever, Vodafone, Disney.
- **Small and medium-sized enterprise (SME):**
Typically, companies with 500 or fewer employees, comprising over 90% of all firms in most countries. SMEs increasingly engage in international business.
- **Born global firm:** A young, entrepreneurial SME that undertakes substantial international business at or near its founding.

Geographic Locations of the 500 Largest Multinational Enterprises



Sources: Scott Decarlo, "Global 500: A New World Order," *Fortune*, February 1, 2015, pp. 18–19; *Fortune*, "Global 500," Special Section, July 21, 2014, pp. F1–F8.

Why do Firms Participate in IB?

- ***Seek opportunities for growth through market diversification.*** e.g., Harley-Davidson, IKEA, H&M.
- ***Earn higher margins and profits.*** Often, foreign markets are more profitable.
- ***Gain new ideas about products, services, and business methods.***
e.g., GM refined its knowledge for making small, fuel-efficient cars in Europe.



Why do Firms Participate in IB? (cont'd)

- ***Serve key customers that have relocated abroad.*** e.g., When Toyota launched its operations in Britain, many of its suppliers followed suit.
- ***Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products.*** e.g., Apple sources parts and components from the best suppliers worldwide.

Why do Firms Participate in IB? (cont'd)

- ***Gain access to lower-cost or better-value factors of production.*** e.g., Sony does much manufacturing in China.
- ***Develop economies of scale in sourcing, production, marketing, and distribution.*** e.g., Airbus lowers its overall costs by sourcing, manufacturing, and selling aircraft worldwide.



Why do Firms Participate in IB? (cont'd)

- ***Confront international competitors more effectively or thwart the growth of competition in the home market.*** Chinese appliance maker Haier established operations in the United States, partly to gain competitive knowledge about Whirlpool, its chief US rivals.
- ***Invest in a potentially rewarding relationship with a foreign partner.*** French computer firm Groupe Bull partnered with Toshiba in Japan to gain insights for developing information technology.

Thank You

Question and Answer