

International Business Theory and Practice

Topic List

- **Introduction to International Business**
- **International Business Environment and Competitive Dynamics**
- **International Business Theories – Part 1, 2 & 3**
- **Application of Theories in Contemporary Global Business**
- **Strategy for entering International Market**
- **Supply Chain Management and International Marketing**
- **International Business and HRM**
- **Managing Corporate Social Responsibility globally**
- **Global Integration and Multilateral Organisations**

Introduction to International Business

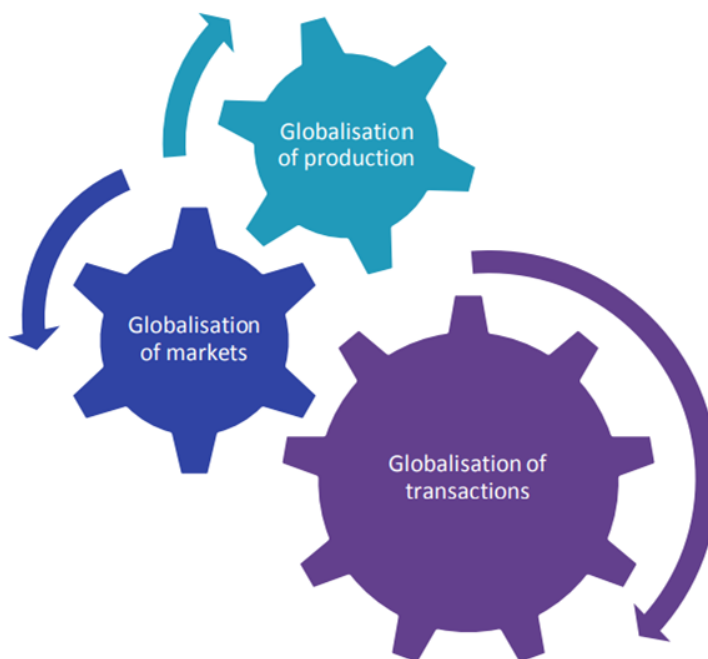
International Business refers to business activities and transactions that are carried out across national borders.

Why do firms engage in International Business?

- To acquire resources
- To diversify or expand sources of sales and supplies
- To respond to push/pull factors (reasons to go in/out of a country)

Economic Globalisation

Economic Globalisation is the process of the international integration of goods, technology, information, labour and capital.



- Globalisation of production
 - Sourcing of products from outside countries to take advantage of their lower costs and higher quality of production factors (labour, land, infrastructure)
 - Allows firms to compete more efficiently
 - Products are becoming more global
- Globalisation of markets
 - Merging of separate national markets into one global marketplace
 - Converges consumer preferences into a global norm
 - Greater uniformity replaces diversity

International Trade and Investment

- An international business engages in international trade or investment
 - International trade occurs when a firm in one country exports and/or imports goods or services to/from another country
 - International investment occurs when a firm invests resources in business activities outside its home country

Liability in International Business

- Distant origins
- Lack of local experience
- Lack of familiarity, networks and legitimacy in the local context

How firms reduce 'Liability of Foreignness'

- Geographical proximity to facilitate personal contact in order to access local knowledge
- Imitation of local strategies to gain local legitimacy
- Reduction of transaction costs

International Business Environment and Competitive Dynamics

Formal Institutions: Political, Economic and Legal

The **Institutional Framework** refers to the formal and informal institutions governing individual and firm behaviour.

Dimensions of Institutions

Formal Institutions	<ul style="list-style-type: none">• Laws• Regulations• Rules	<ul style="list-style-type: none">• Regulatory (coercive)
Informal Institutions	<ul style="list-style-type: none">• Norms• Cultures• Ethics	<ul style="list-style-type: none">• Normative• Cognitive

Two core propositions of the Institution-based View

1. Managers and firms rationally pursue their interests and make choices within the formal and informal constraints in a given institutional framework
2. Where formal institutions are unclear or fail, informal constraints will play a larger role in reducing uncertainty and providing consistency to managers and firms

Political, Economic and Legal Systems

Primary Political Systems

- **Totalitarianism:** One person or party exercises absolute political control over the population in the form of dictatorship e.g. North Korea
- **Democracy:** Governments obtain their legitimacy from being elected by their citizens e.g. citizens of South Africa elected a parliament

Types of Economies

- Market economy
 - A free market economy with no government intervention, where firms determine how resources get allocated, what goods get produced and who buys the goods
- Command economy
 - All factors of production are government/state-owned whereby all supply, demand and pricing are controlled by the government
- Mixed economy
 - Market is free of government ownership except within a few key areas
- Emerging economies
 - Economies that are progressing toward becoming more advanced, usually by means of rapid growth and industrialisation e.g. China, India, Brazil

Legal Systems

- Civil law
 - Uses statutes and codes as a primary means to form legal judgements
- Common law
 - Shaped by precedents and traditions from previous judicial decisions
- Case law
 - Rules of law that have been created by precedents of cases in court

Culture

Culture refers to a way of life and patterns of learned behaviour shared among a group of people.

Hofstede's Cultural Dimensions

- **Power Distance:** Degree to which power is distributed unequally
 - *High:* Hierarchical order (Asian countries)
 - *Low:* Equal power (Western countries)
- **Uncertainty Avoidance:** Degree to which a society feels uncomfortable with uncertainty and ambiguity
 - *Strong:* Rigid codes of belief and behaviour (Japan)
 - *Weak:* Relaxed attitude (Australia)
- **Individualism/Collectivism:** Degree to which a culture emphasises individual or collective interests
 - *Individualism:* Individuals expected to take care of themselves and their families only (Western countries)
 - *Collectivism:* Individuals can expect group members to look after them (Asian countries)
- **Masculinity/Femininity:** Relationship between gender and roles
 - *Masculine:* Achievement, heroism and assertiveness (Japan)
 - *Feminine:* Cooperation, care and quality of life (Sweden)

Religion is a system of shared beliefs and rituals that are connected with the realm of the sacred.

- Knowledge about religions is crucial even for non-religious managers
- Religious beliefs and activities affect business through:
 - Religious festivals
 - Daily and weekly routines
 - Activities and objects with symbolic values
- Showing respect for other religions and associated values will help you avoid conflict and create a basis for doing business