

SCOPE AND IMPORTANCE OF INTERNATIONAL BUSINESS

What is International Business?

When business activities are performed across borders, it refers to International Business. These business transactions can be in the form of trade (export and import) of goods and services, transfer of technology, managerial knowledge, capital, and even ideas from one country to another country of the world. International Business is also known as Global Business.

Scope of International Business

The scope of International Business is very wide. It is not limited to the export and import of goods and services. Along with the export and import of goods, international business includes a wider range of activities. The scope of international business can be briefly explained below:



- **International Trade:** International Business includes Importing and exporting goods and services among different countries of the world. It also includes transferring intellectual property such as copyright, patents, trademarks, etc.
- **Foreign Direct Investment:** Another area of International business is establishing production centres in foreign countries by making a direct investment, it refers to as a foreign direct investment.
- **Licensing and Franchising:** Licensing is an area of International Business in which a foreign company gives a license to a company of another country to sell its products or use its intellectual property in exchange for a fee (royalty). For example – Coca-Cola, Pepsi, etc. In the case of Franchising, permission is granted by a foreign company to sell its products under its brand name, trademark, etc. against royalty. However, in franchising the business model to be followed is the same as that designed by the franchisor. Franchisors also provide training and product assistance. For Example – KFC, Mcdonald's, etc.

- **Joint Ventures:** Joint ventures are one more sphere of international business. Sometimes companies, instead of going directly to the foreign market, go for joint ventures with the local companies of the foreign country. Joint ventures also help in cases where the government of another country doesn't allow companies of other countries to operate in their country without a local partner of their country.
- **Contract Manufacturing and Outsourcing:** In countries where labour cost is high, companies resort to contract manufacturing or outsourcing. They enter into international manufacturing contract or outsourcing contract with companies in other countries where labour cost is low. That company will manufacture the products, however, the product design and development will be controlled by the foreign company and the finished products will be labelled by the name of the foreign company. For example – USA's clothing industry's manufacturing takes place in China, Malaysia, and Mexico; various American companies sought India for software development. Thus, we can say that Contract manufacturing and Outsourcing comes in the vicinity of International business.

Importance of International Business

International business plays a crucial role in the growth and development of the economy of a country. International business helps in generating employment, earning foreign currency, efficient utilization of resources, increasing the standard of living of people, market expansion, etc. These are explained below:

Importance of International Business

For the Firms:

- Higher profits than domestic markets
- Optimum utilisation of capacity
- Economies of Scale
- Escape to stiff domestic competition
- Product maturity
- Enhanced business growth

For the Nation:

- Earning foreign exchange
- Optimum use of national resources
- Creation of Employment Opportunities
- Enhanced Growth Perspective
- Cultural Exchange
- Political Cooperation
- Improving the Standard of living

Importance to the firms

Every organisation coming into the arena of internationalisation has different reasons to look for. There are different advantages for the firm of being global:

- **Higher Profits than Domestic Market:** firms can earn higher profits by selling their products in countries where the price of the product is higher than the local/domestic market. In this way, firms can take advantage of price differentiations prevailing among countries.
- **Optimum Utilisation of Capacity:** Where a firm has a production capacity exceeding the demand prevailing in the domestic market, it can go for the international market and serve a huge customer base. In this way, it can utilize its capacity efficiently.
- **Economies of Scale:** When production is done at a large scale, firms enjoy economies of scale. In this way, it helps the firms to reduce the per unit cost of the product and increase profit margin.
- **Escape to Stiff Domestic Competition:** Going global is a perfect escape for businesses that are facing harsh domestic competition.
- **Product Maturity:** when a firm's product reaches its maturity stage in the home market, the firm can restart the product life cycle of that product by relaunching the product in international markets.
- **Enhanced Business Growth and Perceptions:** Every business firm has an objective of long-term growth and expansion. This objective can be achieved through geographical diversification which means stepping into global markets. In this way, firms can reap the benefits of trading across borders and grow their business.

Importance for the Nation

It is not only an organisation that carries international business and has numerous benefits but also it is important for the nations supporting it in the following ways:

- **Earning Foreign Exchange:** When the domestic firm exports goods abroad, it gets paid in foreign currency. This is how the international business brings foreign currency into the country and helps to improve foreign exchange reserves. This reserve can be used later for importing goods such as petroleum, technology, etc.
- **Optimum Use of Nation Resources:** The surplus production, after meeting the needs of the domestic market, can be exported to the international market. So that there is no wastage of resources.
- **Creation of Employment Opportunities:** International business operations involve numerous people to perform these operations effectively and efficiently. It is obvious that when a firm does mass production it requires plenty of human resources to manufacturing the goods on a large scale and for exporting the extra production outside the country. Thus, it creates employment in production, international marketing, sales, accounting, etc.

- **Enhanced Growth Perspectives:** The growth of a country is restricted if the production is done solely for domestic consumption. If the country does business across borders it will increase its scale of production and consequently enhance the country's growth perspective.
- **Cultural Exchange:** When people involved in International business belonging to different countries and cultures, interact with each other to create cultural awareness of their cultures. It helps businesses to make products considering the cultural aspects of a particular country.
- **Political Cooperation:** In the present era all countries are economically interdependent on one another. It helps in establishing good relations among trading companies.
- **Improving the standard of living:** Because of international business, people are provided with a huge variety of products including domestic as well as international (imported) products. Ultimately it improves the quality of life or the standard of living of people in the country.

CONCLUSION

Thus, International Business plays a significant role in the growth and development of the global economy as all the nations' economies are integrated through global business. Because of international business, the world become a global village. It creates employment, improves the standard of living, and ensures optimum utilization of resources. However, certain factors of International Business have negative effects such as the depletion of the country's natural resources by foreign companies, pollution, and an increase in domestic competition because of foreign entrants. Countries should follow suitable policies to put a check on these negatives so that the whole world can enjoy the benefits of international business.

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