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QUESTION PAPER

June – 2023

(Solved)

INTERNATIONAL BUSINESS MANAGEMENT

M.M.P.C.-16

Time: 3 Hours] *[Maximum Marks: 100*

Note: *Answer any* ***five*** *questions. All questions carry equal marks.*

Q. 1. Distinguish between domestic and international business and highlight the importance of international business.

Ans. Ref.: See Chapter-1, Page No. 2, 'Domestic *vs.* International Business' and Page No. 3, 'Importance of International Business'.

Q. 2. Briefly examine the key agreements of World Trade Organization.

Ans. Ref.: See Chapter-5, Page No. 72, 'Key Agreements of WTO'.

Q. 3. What are the modes of entry into international markets? Discuss the factors influencing entry modes.

Ans. Ref.: See Chapter-10, Page No. 142, 'Basic Modes of Entry Into International Markets' and Chapter-7, Page No. 106, 'Factors Influencing Entry Modes'.

Q. 4. Discuss in detail stages of alliance formation.

Ans. Ref.: See Chapter-9, Page No. 134, Q. No. 4.

Q. 5. Discuss the selection of channels of distribution in international marketing. Explain the steps for successful exporting.

Ans. Ref.: See Chapter-10, Page No. 144, 'Selecting Channels of Distribution' and 'Steps for Succesful Exporting'.

Q. 6. What is the relationship between marketing management and logistics management? Discuss in detail.

Ans. Ref.: See Chapter-12, Page No. 179, Q. No. 3.

Q. 7. *(a)* What are the factors involved in expatriate selection and describe the advantages and disadvantages in using expatriates.

Ans. Ref.: See Chapter-13, Page No. 190, 'Managing Expatriates'.

(b) **Briefly discuss expatriate training and development.**

Ans. Ref.: See Chapter-13, Page No. 190, 'Expatriate Training and Developing'.

Q. 8. Write short notes on the following:

(a) **Effects of globalization**

Ans. Ref.: See Chapter-2, Page No. 24, 'Effects of Globalisation'.

(b) **The Leontiff Paradox**

Ans. Ref.: See Chapter-4, Page No. 59, 'The Leontiff Paradox'.

(c) **Environmental scanning**

Ans. Ref.: See Chapter-7, Page No. 105, 'Environmental Scanning'.

(d) **E-Commerce**

Ans. Ref.: See Chapter-12, Page No. 182, 'E-Commerce'.

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QUESTION PAPER

December – 2022

(Solved)

INTERNATIONAL BUSINESS MANAGEMENT

M.M.P.C.-16

Time: 3 Hours] ***[Maximum Marks: 100***

Note: *Answer any **five** questions. All questions carry equal marks.*

Q. 1. What are the mechanisms through which firms enter into foreign markets? Explain giving examples.

Ans. Ref.: See Chapter-10, Page No. 142, 'Basic Modes of Entry into International Markets'.

Q. 2. Discuss the Foreign Direct Investment theories.

Ans. Ref.: See Chapter-4, Page No. 59, 'Foreign Direct Investment (FDI) Theories'.

Q. 3. Discuss the theories of Internationalization.

Ans. Ref.: See Chapter-7, Page No. 105, 'Theories of Internationalisation'.

Q. 4. Discuss the concept and types of strategic alliances, giving examples.

Ans. Ref.: See Chapter-9, Page No. 128, 'Concept of Strategic Alliances' and Page No. 129, 'Types of Strategic Alliances'.

Q. 5. Distinguish between domestic and international marketing and explain the international marketing mix, with the help of examples.

Ans. Ref.: See Chapter-10, Page No. 147, Q. No. 1.

Q. 6. What do you understand by the term International Operations Management? Discuss the strategic issues in international operations management.

Ans. Ref.: See Chapter-12, Page No. 169, 'International Operations Management' and Page No. 170, 'Strategic Issues in International Operations Management'.

Q. 7. Briefly discuss the cross-cultural issues in international HRM.

Ans. Ref.: See Chapter-13, Page No. 187, 'Cross-Cultural Issues in IHRM'.

Q. 8. Write short notes on the following:

(a) **Benefits of International Business**

Ans. Ref.: See Chapter-1, Page No. 4, 'Benefits of International Business'.

(b) **Ecological Environment**

Ans. Ref.: See Chapter-3, Page No. 42, 'Ecological Environment'.

(c) **Transnational Structure**

Ans. Ref.: See Chapter-8, Page No. 121, 'Transnational Structure'.

(d) **International Cash Flows**

Ans. Ref.: See Chapter-11, Page No. 166, Q. No. 5*(iii)* and Page No. 167, Other Important Question.

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INTERNATIONAL BUSINESS MANAGEMENT

BLOCK 1: INTRODUCTION TO INTERNATIONAL BUSINESS

Dynamics of International Business

1

INTRODUCTION

The study of international business is a relatively new discipline. It is difficult to envision a future without international trade. Almost every country, no matter how small, has international firms. Nations benefit from international business through trading products and services from around the world. International commerce or international trade, has existed since man learned to live organised. India's spices are well-known. Egypt traded internationally. Nature's gifts to nations are the basis of global trade. Geographic, physical and climatic factors cause these differences. Punjab (Pakistan) produces high-quality basmati rice and Bengal (India) produces jute. When nations have different resources, vegetation, climate, soils and other physical and geographic qualities, international trade is inevitable. In addition to natural and geographic factors, it's influenced by political affiliations, the population's education and special skills, for example, India's software skills economic development stage, capital accumulation by a country and its foreign investments, technological advancement, trade and financial regulations and more.

International trade is said to be as old as human history itself, even though international business as a subject is, as was previously mentioned, a relatively recent development (Monye, 1993). Communities at even the most basic tribal levels, found it advantageous to trade, albeit in a very primitive way and involving the exchange of basic objects, primarily for immediate consumption (Harrison, Dalkiran and Elsey, 2000). Trade in the past took the form of barter and was conducted for both social and economic purposes.

The fundamental human urge for commerce does not change even though modern trade is carried out in far more sophisticated ways and for far more complicated causes than ever before.

Contrarily, over 90% of modern trade is carried out by private corporations in pursuit of their own goals and objectives, in contrast to ancient periods when trade was planned and carried out by communities for the benefit of communities themselves (Harrison et al., 2000).

Contemporary trade grew alongside the modern nation state and national borders. The mutual benefits of free trade (trade without barriers and based on comparative advantage) offered sufficient incentives for nation states to seek bigger opportunities in each other's domestic markets and expand trade volume. Such mutual benefits have fuelled the rise of alliances and regional integration around the world, as seen by the establishment of many trading regions, such as the European Union (EU) and North American Free Trade Agreement (NAFTA). Nations have promoted trade and international commerce by creating adequate business and investment environments within their borders, out of political and strategic necessity and a desire to attract company and foreign investment, frequently in competition with other nations. Liberalisation, de-regulation and privatisation by governments around the world, especially in the former Soviet republics and Eastern Europe, have boosted Foreign Direct Investment (FDI).

In the past two decades, many countries' economies have grown substantially. International transactions have grown, especially FDIs (Prathi, 2011). Total capital has expanded dramatically but so has the number of MNC subsidiaries (MNCs). The number of nations, where corporations operate, has grown.

As international trade and investment developed, competition intensified and national industries became global. Similar markets in different countries and severe global competition pushed multinational competitors to coordinate marketing and competitive strategies. Strategy switched from national to global markets. Coordination of MNC subsidiaries' global competitive actions increased.

The reduction of trade barriers in the last decade of the past millennium and the similarity of national markets generated the opportunity for globalisation of markets and competition. MNCs and alliances between independent enterprises developed worldwide networks, while inexpensive, effective transportation and global communication networks enabled supply integration. These were required yet insufficient. Intense industry competition drove integration and globalisation.

Globalisation is when a company views the world market as a single market without social, cultural, economic, political and commercial obstacles. India and the USA can have distinct per capita incomes, consumer purchasing power, economic development stages, etc.

CHAPTER AT A GLANCE

DOMESTIC VS INTERNATIONAL BUSINESS

The fundamental concepts of business that apply to activities, functions and procedures in domestic and foreign trade are the same. A multinational firm must, however, adjust and adapt its business processes country-by-country because the environments in which domestic and international enterprises operate differ significantly. An international manager, in contrast to a domestic business manager, deals with additional challenges, uncertainties and most crucially, dangers. The responsibilities of a CEO in international business are undoubtedly, much more difficult.

Differences in the political, economic, legal and cultural environments, as well as in the foreign exchange markets and exchange rate regimes are to blame for these challenges, uncertainties and hazards. The majority of the time, these issues take the form of limitations that make foreign company decision-making and implementation harder and occasionally riskier than domestic business. More significantly, culturally-insensitive judgements frequently lead to conflicts that are more challenging and expensive to resolve without significantly impairing the performance of the company, its future operations and the management's effectiveness.

The dynamic nature of ongoing shifts in the host nation's corporate, economic, political and legal settings add yet another layer of challenges that the international business leader must manage on a nearly, daily basis.

The following criteria can be used to distinguish between domestic and foreign business:

Culture

The firm's countries have various cultures. To succeed, the firm must be culturally sensitive and work within the host country's manners, cultures, values and conventions. An international company's manager must recognise and empathise with cultural variations in business and social life, conform and cooperate and not confront or behave as though in his/her own culture. Nike discovered this when it first created and sold Nike Air shoes. It wrote "Air" in exquisite cursive typefaces but Saudi Arabia thought it was the word "Allah" in Persian. Marketing initiatives, particularly advertising, may need to be modified to local culture. Years ago, a 'Tuff' shoe ad featuring male and female models wearing only shoes was criticised. India outlawed it as indecent. A similar campaign in France might not have sparked public outrage and been considered normal.

Fiscal and Government Policies

Cross-border commerce requires using multiple currencies and respecting different government rules and regulations, such as profit transfer limitations. Diverse governments have different exchange rate regulations and procedures, ranging from daily decrees to fixed and variable exchange rates. These methods add risk and ambiguity to international financial transactions. To succeed, the firm must design a strategy to handle these variances and issues.

Legal Environment

Legal environments vary by country, requiring organisations to be sensitive to laws, rules and regulations that affect operations and performance.

Disobeying local regulations can harm a company's revenues and reputation. Joint ownership laws are confusing, bureaucratic, annoying and time-consuming.

Legal issues often cause serious disputes between the host government and the corporation, requiring protracted negotiations that may fail to invest or continue the business.

Consumer Tastes and Preferences

Cultural differences in consumer tastes and demand patterns need the firm to adopt suitable manufacturing, procurement and marketing techniques to minimise costs and sustain value. McDonald's doesn't serve beef or pig in India and only vegetarian food in Gujarat. Even with conventional worldwide items, some adjustments may be needed for the host culture. The product's name or packaging may be insulting in the host country's language.

Availability of Factors of Production

Varying nations have different quality factor endowments, necessitating the firm to develop and implement product development and logistics methods appropriate with the host country's resources. Certain talents or supplies may be limited or unavailable.

If not, the company must import or establish local sources.

McDonald's, one of the earliest Western fast food corporations had trouble securing high-quality local food sources in 1990 after entering the Soviet market. McDonald's had to transmit superior agricultural technology, equipment and advisors to Soviet farmers to achieve quality, delivery and production criteria. Potato production increased 100%, its own dairy farms, livestock farms, food processing units and distribution system.

International business is not merely a domestic expansion. Domestic business is different. Table summarises the differences.

Table: Differences between International Business and Domestic Business

International Business	Domestic Business
(i) Many nations, many cultures.	*(i)* One natin, one culture.
(ii) Patriotism hinders trade.	*(ii)* Patriorism helps trade.
(iii) Markets are diverse and fragmented.	*(iii)* Market is much more homogeneous.
(iv) Multiple currencies, differing in stability and exchange value.	*(iv)* Single currency.
(v) Varied economic (monerary and fiscal) climate.	*(v)* Uniform economic (monetary and fiscal) climate.
(vi) Political factors may play major role.	*(vi)* Political factors are of minor importance.
(vii) Government influences business decisions.	*(vii)* Minimum Government interference in business decisions.
(viii) Transport cost influences marketing decisions to a great extent.	*(viii)* Transport cost influences only to a small extent.
(ix) Considerable risks, both financial and non-financial, necessitate credit and general insurance.	*(ix)* Minimum payment and credit risk.

IMPORTANCE OF INTERNATIONAL BUSINESS

Due to advancements in the following areas, international business has recently gained significant significance for host countries in particular and for world economies in general:

Technology Diffusion

International business is used to spread technological advancements to every part of the globe. This transmission takes the form of contemporary management, production, marketing and logistical techniques utilised by domestic and international businesses, in addition to the products and services we use every day.

Stimulation to Competition

Except in the case of entry by acquisition, the establishment of a foreign company in the host nation, whether in a joint venture with a local company or on its own, may boost domestic rivalry and present more obstacles for entrepreneurs, particularly in developing nations. International businesses are able to offer goods and services at frequently lower costs and higher quality, thanks to their superior global expertise, knowledge, technology and other essential resources.

Higher Standard of Living

Many so-called "luxury" products are now within the reach of the average person, particularly in developing nations, thanks to the availability of a wide variety of goods of world quality at affordable rates. International trade has greatly raised the level of living in many developing nations.

Impetus for Standardisation

The acceptance of norms and behaviours that are often accepted in international marketplaces is referred to as standardisation. One standard product might occasionally be sold using comparable sales methods all over the world. Consumers and other interested parties, such as health and safety authorities, can compare products and services more easily and effectively, thanks to common standards. Due to the narrowing variances in consumer tastes, preferences, and interests, product standardisation has become a simpler alternative. Technology, telecommunication, transportation and advertising advancements are to blame for this.

Adapting to International Environment

A company has internal and external environments. The firm controls its internal environment by determining its mission, organisational structure, recruitment policies, supplier relationships, etc. The corporation can't control its external surroundings. The firm's little control is usually the result of its market strength or collective action by a representative organisation, such as the CBI in Britain or the CII in India. The corporation must conform to national, international, or global environmental factors or face the repercussions. Health and safety rules, trade policies and the legal environment must alter.

Nike, one of the world's largest sportswear manufacturers, had to discontinue a licensing relationship with an Asian licensee suspected of child labour (Harrison, et al., 2000).

With rising internationalisation of company, internal and external environmental aspects are more standardised.

Domestic enterprises seeking worldwide expansion frequently imitate international firms in adjusting to environmental changes. International business helps domestic enterprises adopt more successful policies and procedures before becoming global. Many US and European firms have adopted Japanese management strategies, including quality circles, JIT and TQM to remain competitive in home and international markets.

Encouragement to Global Business and Economic Reforms

Governments promote international business development. In competing with their neighbours, they offer financial and non-financial incentives to attract FDI. Increasing trade and investment liberalisation, deregulation of domestic industries and privatisation of state-owned businesses aim to attract international business. These initiatives have boosted global business. International commerce has encouraged governments to open their borders to international trade and investment, standardise their systems and procedures, adopt internationally acceptable norms and attitudes, especially regarding human rights and child labour and promote democratic institutions.

Economic Cooperation and Integration

The gradual ending of national economies' isolation has been one of the most important effects of the process of internationalisation, since the end of World War II. In order to improve collaboration and coordination among nation states, fewer and fewer barriers to global commerce and investment are being put in their place. The creation of regional groupings in the form of free trade areas as a result of the need to cooperate and coordinate across wider geographic areas has sped up the expansion of global business activities.

BENEFITS OF INTERNATIONAL BUSINESS

There are several benefits associated with foreign trade, some of them are as follows:

1. Mutual Exchange: As was previously mentioned, the exchange of products and services benefits the trading nations.

2. Higher Standard of Living: Due to the reciprocal trade of goods, inhabitants of trading nations can take advantage of items and services that are unavailable or impractical to manufacture in their own nation. For instance, without international trade, residents of the Arabian Gulf would have had a horrible existence due to a lack of various necessities like food, clothing, etc. But because of global trade, they are able to exchange their oil for whatever they require. They now enjoy a higher standard of living, thanks to this.

3. Stabilisation of Prices: According to conventional wisdom, prices are a result of supply and demand. Naturally, the availability of food grain will be impacted during times of natural calamities like flood, hunger, etc. As a result, to ensure an appropriate supply and reasonable pricing, food grains that are needed for domestic use but cannot be grown in a country must be imported. When there is a production surplus, the same rule applies. To keep prices stable in the home market, the surplus output might be exported.

4. Specialisation: As was previously mentioned, a nation typically exports goods in which it has a comparative or absolute advantage, such as India with rice or the Gulf nations with oil. A country becomes specialised, when it consistently exports the same good over a period of time.

5. Increased Productivity: The country can manufacture more goods and better-quality goods and services, thanks to its geographic specialisation and acquired experience, which increases productivity. Industrial products' extra capacity, if any, can be used entirely. Large-scale production will become more affordable as a result.

The brightest example is the production of automobiles in Japan.

6. Wider Markets: Due to the expanding potential for their products in other nations, many businesses are drawn to the global market. The home market may be saturated or the overseas market may be more lucrative, depending.

7. Economic Development: Because of international trade, emerging nations like India may export goods and services that are worth money outside. The amount of money collected by the government from custom duties may also rise. By importing raw materials and exporting produced goods, nations like