

International opportunities

Business



International diversification is a term used to refer to the extent of a company's global presence and dependence on global markets. Over the years, businesses have moved into foreign markets as part of solving growth challenges and increasing performance. However, despite the inherent benefits of expanding internationally, some companies choose not to do so because of many reasons. Studies utilizing data from large multinational companies such as McDonald's and Starbucks indicate that the relationship between performance and international diversification is nonlinear (Ang, 2007). This implies that if international diversification is a factor in determining a company's performance levels, then it follows that there will be a vicious cycle between the two factors. More specifically, it is important to note that internationalization activities require a lot of resources in order to support performance. As a result, it is correct to assume that strong performing companies will find it easy to internationalize compared to poor performing companies. Therefore, prior performance of a business institution is a major determinant of any internationalization efforts and hence some companies may find the practice attractive as opposed to others (Ang, 2007).

On the other hand, the legal system in any country is very important to international business because it works to protect property rights besides providing guidelines for contract enforcement and ethical business practices. However, in the process of internationalizing, a company may find it attractive to invest in countries with lax laws and regulations. The main advantage of such a move is that it cuts the cost of doing business in countries with non-restrictive laws compared to countries such as the United

States where strict standards are in place with regard to product safety and environmental pollution. Furthermore, it is costly to do business in countries, which demand huge liability insurance rates from both international and domestic companies (Ang, 2007). Equally, countries without well-established laws and regulations such as China, Japan, India and other former communist nations tend to pose many risks to international businesses. Most of these risks are those related to corruption in that international companies may find it difficult to secure important business documents and contracts because of the bribes involved.

Furthermore, it is risky to operate in countries where the existing business contract laws are not sufficient enough to resolve contract disputes and hence firms may end up making huge losses in relation to contract violations. Moreover, businesses may lose income and their own properties in the absence of adequate laws that protect intellectual property rights (Ang, 2007). In conclusion, it is very attractive for firms to expand internationally in order to improve their performance and growth, but caution should be observed in selecting business locations because there are different economic, political, and legal conditions in different parts of the world.